6165540

Hilton Food Group plc
Annual report 2007

logo removed

# Europe's leading
## specialist retail meat packing business

images removed

## Contents

# Introduction

Hilton Food Group plc, the leading specialist meat packing business supplying major international food retailers in Europe, is pleased to announce its results for the year to 31 December 2007.

**Key strengths**

- →Strong relationships with major international retailers
- →Long track record in quality and service
- →Reduced risk business model
- →Established supply chain
- →High volume, efficient and well invested facilities
- →Experienced management team
- →Profitable, cash generative business
- →Potential growth opportunities

**How we measure the value we add to our customers' businesses?**

- →Consistent quality
- →Competitive pricing
- →Food safety assurance
- →Full production traceability
- →High service levels
- →Continuous innovation
- →Dedicated customer focus

# Group overview

2007 has seen continuing progress, in line with the Board's expectations, with strong volume growth across all territories, the completion of two key capacity expansion projects, developing opportunities in Central Europe and continued strong cash generation.

image removed

## Financial highlights

### Geographic split

■ Western Europe
■ Other

graph removed

### Revenue £m

+9 7%

£577.7m

| | Western Europe | Other | Total |
|---|---|---|---|
| 2004 | 293 6 | | 293 6 |
| 2005 | 447 9 | | 447 9 |
| 2006 | 517 9 | 8 8 | 526 7 |
| **2007** | **551 8** | **25 9** | **577 7** |

graph removed

### Operating profit before significant item* £m

+11 1%

£17.4m

| | Western Europe | Other | Total |
|---|---|---|---|
| 2004 | 3 8 | | 3 8 |
| 2005 | 13 7 | | 13 7 |
| 2006 | 15 4 | 0 3 | 15 7 |
| **2007** | **16 8** | **0 6** | **17 4** |

graph removed

### Cash generated from operations before significant item* £m

£25.4m

| | |
|---|---|
| 2004 | 12 2 |
| 2005 | 26 1 |
| 2006 | 26 5 |
| **2007** | **25 4** |

* The significant item in 2007 relates to costs to the Group associated with the flotation of Hilton Food Group plc on the London Stock Exchange of £1 8m

# Where we operate

We have operations in five European locations and are looking to expand and grow our businesses further within the European marketplace.

| Ireland | UK | Netherlands | Sweden | Poland |
|---|---|---|---|---|
| Commenced production 2004 | Commenced production 1994 | Commenced production 2000 | Commenced production 2004 | Commenced production 2006 |
| Location Drogheda | Location Huntingdon | Location Zaandam | Location Vasteras | Location Tychy |
| Customer Tesco Ireland | Customer Tesco UK | Customer Albert Heijn | Customer ICA | Customer Ahold Czech Republic |

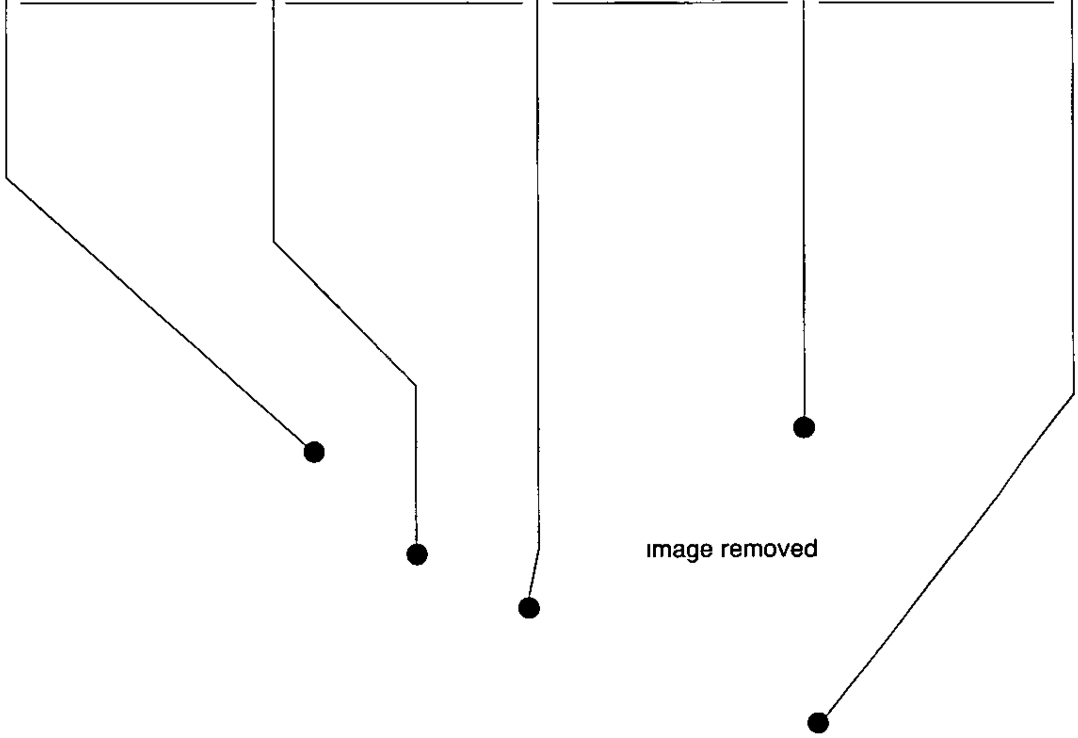

image removed

# Chairman's statement

image removed

image removed

This is our first Annual Report to shareholders since Hilton's flotation on the main market of the London Stock Exchange in May 2007. I am pleased to be able to report that the Group has continued to make progress, achieving strong sales and volume growth throughout 2007 and generating the levels of cash flow required to fund the Group's future development.

## Financial overview

During 2007 the Group achieved a continuing increase in volumes of meat packed for its customers, in excess of 16% Turnover rose by just under 10% to £577 7m over the same period, with lower average raw material input prices

These increases reflected continuing growth across all the territories in which the Group operates, together with the first full year of our new packing facility in Central Europe

Operating profit before significant items rose by over 11%, from £15 7m to £17 4m Interest cover before restructuring and flotation costs was 8 8 times

Basic earnings per share before restructuring and flotation costs were 15 0p (2006 14 3p)

The Group has a good historical cash generation track record and cash inflow of £25 4m from operating activities in 2007 reduced net year end borrowings to £36 2m, from £43 6m prior to flotation

Net capital expenditure of £6 7m reflected principally the completion of a new factory in the UK and the extension of our packing facilities in Holland This continues the Group's policy of investing in additional capacity sufficiently far in advance to enable us to service our customers' growth plans

The Group's results are considered in greater detail in the Chief Executive's review and the Group Operating and Financial review sections on pages 8 to 15

## Dividends

The Board is proposing a final dividend of 5 2p per ordinary share Together with the interim dividend of 2 2p per ordinary share paid in December 2007, this makes a total dividend for the first year following flotation of 7 4p per ordinary share The final dividend, if approved by shareholders, will be paid on 11 July 2008 to shareholders on the register on 13 June 2008 and the shares will be ex dividend on 11 June 2008

## Our employees

The transition from a private business to one listed on the main market was a challenging process and I would like to pay tribute to our managers and employees who continued to operate the business professionally through this process A smooth and efficient transition to public ownership was achieved in early 2007, with no reduction in customer service levels and no interruption to the Group's continuing momentum, throughout the year

## Strategy

The Group's historical growth has been achieved by geographical expansion and the subsequent organic growth achieved in each territory This has been based both on the marketplace success achieved by the Group's retail partners in each country and by progressively expanding the range of meat lines packed for those partners Such volume growth progressively reaps increased economies of scale, to the benefit of both parties

## Outlook

Compound annual volume growth over the last four years has been strong, achieved by both geographical expansion and continuing organic growth, without the benefit of any acquisitions Volume growth continues and was over 16% in 2007

The start to the current year has been encouraging With a strong business model, the Board looks to the future with confidence

**Gordon Summerfield CBE**
Non-Executive Chairman
14 April 2008

# Chief Executive's review

image removed

2007 has been a year of real progress for Hilton Food Group, continuing our growth momentum in all regions This progress is rooted in Hilton's strong long-term relationships with its retail partners, with whom the Group continues to work closely to deliver high service levels, consistent and high product quality, product innovation, high levels of food safety assurance and product integrity Consistently meeting these standards allows us to build volumes and progressively reduce unit packing costs. The strength of these partnerships has been the key driver of our growth since the Group was formed and will continue to underpin the Group's success in future

### Performance by segment

The Group operates in two regions, Western Europe, covering the Group's established businesses in the UK, Ireland, Holland and Sweden and Other Regions, which currently comprises the Group's recently commenced packing business in Central Europe, supplied from its new packing plant in Tychy, southern Poland

### Western Europe

**Operating profit of £16 8m (2006 £15 4m) on turnover of £551 8m (2006 £517 9m)**

Continued progress was made across our Western European operations in the UK, Ireland, Holland and Sweden, with all our customers continuing to achieve organic growth Volume growth was 10 8%, with turnover growth of 6 5%, reflecting lower average raw material prices This was achieved despite the exceptionally adverse summer weather in the UK, which affected sales of barbecue and other seasonal lines, with the pace of growth accelerating towards the end of the year

### Other Regions

**Operating profit of £0 6m (2006 £0 3m) on turnover of £25 9m (2006 £8 8m)**

In Central Europe, as expected, we saw a good first full year contribution from our new facility in Southern Poland (near to the Czech Republic border), producing on average approximately 200 tonnes per week Ahold's divestment of its Polish stores in early 2007 has been almost offset by continuing volume growth in Ahold's Czech Republic business and trials are currently being undertaken with Tesco, which, if successful, could lead to the Tychy plant supplying Tesco stores in Hungary, Czech Republic, Poland and Slovakia over time

### Operational review

Modern, well invested facilities give a key competitive advantage to Hilton, which operates a high volume business where it is imperative to keep unit costs low and continuously improve product quality Over the four years to December 2007 capital expenditure on the Group's packing facilities has totalled £62m, £52m of which has been spent on major capacity expansion projects

Each packing facility is bespoke and has been tailored specifically to meet the needs of the Group's customer in the country concerned Although we use firm processing and packaging principles and blueprints, we do not simply replicate our facilities from one country to another Each of our customers and markets are different and we believe that our success owes much to the time we have taken to understand the detailed needs of our customers and the markets in which they operate

We are pleased to report that the two most recent capacity expansion projects, at Huntingdon in the UK and Zaandam in Holland, were completed during the first half of the year on time, on budget and with minimal disruption to production or customer service levels, at either site

In the UK a new purpose built factory at Huntingdon was completed in early 2007 that will enable Hilton to service its customer's expected growth over the medium term The factory is producing packed minced meat, burger, kebab and other value added products

In Holland, the completion and commissioning in early 2007 of a factory extension in Zaandam to service its customers expected growth over the medium term, will increase capacity by approximately 50%

In Ireland we are currently extending our Drogheda factory, for bacon and sausage production

### Low cost and adaptable operating model

The Group's packing plants operate at the high throughput levels necessary to achieve low unit packing costs and each is involved in a wide range of new product and packaging developments, which, together with extending the ranges of products packed, can serve to increase the utilisation of its packing facilities, to drive unit costs down still further This can only be achieved by using very modern high speed packing facilities, combined with an intensive focus on product quality, food safety and product integrity

We believe in continuously developing our facilities, not only to grow with our customers, but to constantly improve our production processes, to maximise efficiency We work closely with our customers, to constantly evolve our production processes in order to produce new product and packaging concepts, which can, as a multinational company, be shared across all our facilities

### Our employees

The continued progress made by the Group in 2007, and throughout the flotation process at the start of the year is attributable to the strength of the dedicated workforce in each country and, on behalf of the Board, we would like to thank them for their commitment, enthusiasm and expertise

**Robert Watson OBE**
Chief Executive Officer
14 April 2008

image removed

# Group Operating and Financial review

image removed

## The Group's businesses
### Principal activities

Hilton is a leading specialist meat packing business supplying major international food retailers, from state of the art facilities currently located in five European countries, with private label fresh and value added packed beef, lamb and pork products, individually developed and adapted for each customer and their local market requirements

The Group sources its primal meat cuts, where possible, from local sources which can meet its exacting standards and also from a global base of quality suppliers, which it then processes and packs in large scale, modern, facilities for onward distribution by third party hauliers to its customers These plants operate at the high volume levels necessary to produce competitive unit packing costs, whilst achieving the levels of hygiene, food safety assurance, product integrity, shelf life and product quality required by the Group's very discerning customers

The first central meat packing facility was established in 1994 for Tesco in the UK The Group has since expanded rapidly and now operates similar facilities in Holland (for Albert Heijn, acquired in December 1999), Ireland (for Tesco, established in March 2004), Sweden (for ICA, established in September 2004) and Poland (for Ahold in Central Europe, established in September 2006) The Group's expansion across Europe has been underpinned by its proven track record, together with its growing international reputation and experience and the close partnerships forged with successful retail customers The Group is continuing to achieve growth across all its locations, driven by its retail partner's success, new product and packaging development and the extension of the range of products packed for its customers

### The business environment

The Group has benefited from the consumer trend in a number of European markets towards convenience and one stop shopping which has contributed to the growth of the large food retailer chains In addition these food retailers have focused on sales of private label goods, which the Group supplies exclusively

As the number of retail outlets has continued to shrink through consolidation and the larger retail chains have gained a greater share of the grocery market, these retail chains are increasingly utilising large scale central packing plants capable of producing meat products more efficiently By shifting to these larger suppliers of pre-packed meat the retailers have effectively chosen to rationalise their supply base, to deliver lower costs and higher food safety and quality standards. This has allowed the retailers to focus on their core business whilst maximising their return on available retail space and these trends are expected to continue

## Key strengths

| Strong relationships and track record with major international retailers | Reduced risk business model | Established supply chain | High volume, efficient and modern facilities | Experienced management teams |
|---|---|---|---|---|
| Hilton has developed strong and well established relationships with its retail customers, working closely across their organisations and forming an integral and value added part of their supply chains The Group has demonstrated its ability to adapt its operations to specific local market requirements, having worked alongside retail customers entering new geographic markets, and has established its reputation as a leading player in the dedicated red meat packing market across Europe | Not owning any abattoirs gives the business the freedom to purchase only those cuts of meat its customers require, which significantly reduces the risk of unwanted or uneconomic cuts In addition, the Group has the flexibility to choose from a wide international supplier base, comprising the best suppliers, without being tied to any one meat supplier, so as to enable it to achieve the most competitive purchasing terms | The Group has long established procurement relationships across a range of countries and continents, with a proven record of competitive sourcing of meat and only such integration with its suppliers as required by its retail customers, in order to assure high quality, traceability and food safety standards Although it is not under a contractual obligation to do so, the Group has principally sourced primal meat in the UK from abattoirs some of whose owners are also shareholders in Hilton, due to their high standards of supply and its customer's preference | Hilton has a modern and well invested asset base, with production processes operating at the high throughput rates required to deliver competitive unit costs Through capital investment the Group's total production capacity has been increased significantly in the four years to 31 December 2007 and the Board believes that there is sufficient capacity currently in place to meet its customers anticipated growth in the medium term without further significant investment, excluding expansion by those customers of central packing into new overseas territories | The business has strong management across Europe, with self-sufficient local management teams, supported by central expertise in key areas, such as raw material and equipment procurement, business development and information technology strategy |

# Group Operating and Financial review

continued

## The Group's strategy

The Group's overriding objective is to achieve attractive and sustainable rates of growth and shareholder returns The Group's strategy is to build on its strong historic growth, leveraging its established business model by focusing on the following key areas

### Expansion with existing customers

Given the success demonstrated by Hilton to date with its existing customers, the Board believes that the Group is well placed to build on its strong customer relationships by participating in new initiatives, either via product extension or new product development in existing territories or by partnering with customers in their overseas expansion plans

Hilton works closely with its customers on both developing and extending the range of products it offers The Group's flexible supply and production chain allow it to add new packing lines relatively easily, taking advantage of consumer led trends Hilton also works on developing innovative packaging solutions to further develop its customers' private label offerings

### Continual focus on cost, quality and product development

Over the four years to 31 December 2007 the Group has invested approximately £62m in both new and existing facilities to increase capacity and enhance the Group's processing technology Hilton maintains these facilities at the advanced technological level required for efficient operations that support high volumetric utilisation, thereby ensuring the Group continues to improve quality and remain cost competitive

We work closely with our customers to ensure rigorous quality, food safety and product integrity standards are continuously met.

### New customers

The Group continues to focus on opportunities for geographical expansion Whilst its relationships with existing customers have afforded the Group the opportunity to expand, Hilton's track record and outstanding facilities also provide a sound basis for attracting new customers in new countries and exploring where Hilton's business model can, appropriately adapted, produce economic advantages for both parties

### Future outlook

There are a number of new business prospects which are currently being progressed Against the background of the current economic climate, the Directors believe that the Group remains well placed to take advantage of potential growth opportunities in the areas outlined above

## Performance against key performance indicators (KPI's)

Hilton has made continuing progress in 2007 in its strategic development The Board monitors progress against overall Group strategy by reference to six key KPI's, as set out below

| KPI | 2007 | 2006 | Definition, method of calculation and analysis |
|---|---|---|---|
| Growth in volume of packed meat sales | 16 2% | 15 1% | Year on year volume growth expressed as a percentage Whilst sales volumes have increased, lower average raw material meat prices in the year have led directly to lower average sales prices |
| Growth in sales of packed meat | 9 7% | 17 6% | Year on year sales growth expressed as a percentage Similar trend to sales volumes, with 2007 reflecting lower average raw material meat prices in the period |
| Operating profit margin before significant item (%) | 3 0% | 3 0% | Operating profit before significant items expressed as a percentage of turnover Unchanged in 2007, with no material change in trading terms with customers |
| Earnings Before Interest, Taxation, Depreciation and Amortisation (EBITDA) (£m) | 28 4 | 24 7 | Operating profit before significant items plus depreciation and amortisation of intangible assets and government grants Improvement is reflective of the growth in profitability of the core business and demonstrates the sound quality of earnings |
| EBITDA (%) | 4 9% | 4 7% | Operating profit before significant items plus depreciation and amortisation of intangible assets and government grants, as a percentage of turnover Improvement reflects growth in the profitability of the core business operations when compared to turnover |
| Free cash flow before minorities (£m) | 11 4 | 3 7 | The improvement reflects the increase in EBITDA and reduced levels of required capital expenditure |

In 2008, the Group's objective is to continue to demonstrate strong performance against existing KPI measures

## Financial review

### Basis of accounts presentation

The Group is presenting its results for the year to 31 December 2007, with comparative information for the year to 31 December 2006 The results of the Group are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU

### Trading overview

Sales volume and revenue

Underlying trading performance has been strong, with volumes growing overall by 16 2% Further details of volume growth by segment are detailed in the Chief Executive's review Total Group turnover rose by 9 7% to £577 7m, compared to £526 7m last year The increase is below the level of volume gains, as lower average raw material prices have fed directly into lower average selling prices

Gross profit margin

Gross profit margins were unchanged from last year, at 14 2%

Operating profit

Operating profit, at £17 4m (£15 7m after flotation costs of £1 8m), was 11 1% above the operating profit of £15 7m made in 2006 Operating profit benefited from £0 3m of exchange translation gains towards the end of the year

Finance costs

Net finance costs rose from £0 2m to £2 0m The increase comprises interest on the new bank borrowings of £47 5m, which were put in place prior to the flotation, but are now reducing, partly offset by the release of provisions for interest on overseas taxation exposures, which were put in place before the flotation and have since been settled

Profit before taxation

Profit before taxation, at £13 7m, was £1 8m lower than in 2006 (£15 5m), reflecting the once off charge for flotation costs of £1 8m and the increase in finance costs of £1 8m detailed above, partially offset by the improvement in underlying profitability

### Taxation

The taxation charge for the period was £4 2m Excluding £1 8m of flotation costs, for which taxation relief has not in the main been assumed, the effective rate of tax was lower than in 2006 by 0 7%

### Earnings per share

Basic earnings per share before restructuring and flotation costs was 15 0p (2006 14 3p), and basic earnings per share was 12 7p (2006 14 3p)

### Cash flow and net debt

Cash flow continued to be strong, with the Group generating £9 9m of free cash flow after flotation costs and before dividends to shareholders (2006 £3 2m) This has enabled the Group to steadily reduce the level of net debt outstanding Group borrowings, net of cash balances of £20 8m, stood at £36 2m at 31 December 2007

image removed

# Group Operating and Financial review

continued

## Treasury policy

Foreign currency risk

The Group's overseas subsidiaries' earnings are translated into sterling at the monthly average rates for the periods concerned and their assets and liabilities at the year end closing rates The timing of the repatriation of profits to the UK and the repayment of any intra group loans to UK subsidiaries has regard to actual and forecast exchange rates

Interest rate risk

The Board's policy is to have an interest rate cap on the majority of its sterling borrowings It currently has in place a three year cap at 6 5% on £30m of its term loan from Ulster Bank, the interest rate on which is LIBOR plus an agreed margin

Credit risk

As Hilton's customers comprise a small number of successful and credit worthy major multiple retailers, the level of credit risk is considered to be immaterial Historically the incidence of bad debts has been insignificant.

Liquidity risk

The Group has historically been cash generative All bank positions are monitored daily and capital expenditure above certain levels, together with decisions on intra group dividends, are approved at Board meetings All long-term debt is arranged centrally and is subject to Board approval. The current bank facilities available to the Group are detailed in the notes to the accounts on pages 51 and 52

## Resources risks and relationships

Resources

The Group takes considerable care to safeguard the assets that afford it competitive advantage These include product quality, product integrity and food safety levels, customer service and product innovation levels, its operational management and skilled workforces and its modern well invested packing plants

Reputation

Hilton's reputation comprises many facets including product quality and presentation, food safety and integrity, product innovation, service levels, health and safety, the manner in which it treats its employees and suppliers and the way in which it operates its facilities All of these elements, which are achieved within a culture of safe working whilst operating within all applicable regulations, are the responsibility of the operational management teams in each country In addition, the local management teams are supported by specialist central expertise and assistance, as required

Packing facilities

The business has invested approximately £62m over the last four years to increase packing capacity, in order to be able to service its customers' growth plans, whilst ensuring its packing facilities are kept at a state of the art level, both in terms of packing speeds, in order to reduce unit costs, and to both continuously improve product quality and reduce the environmental impact of the Group's operations

Employees

The Group continues to invest in its people In addition to training and mentoring programmes, where additional skills are required, the strategies for retaining key staff include the provision of terms and conditions which are competitive in each locality and employer contributions to defined contribution pension schemes Subject to approval at the Annual General Meeting, it is intended to make a sharesave share option scheme available to all employees, to enable them to share in the Group's future growth

Relationships

Hilton has partnership relationships with its multiple retail customers, which involve continuous close liaison, discussion and co-ordination, in order to ensure the best possible outcomes for both our partners and their customers

Principal risks and uncertainties

The Group has a formal system to identify, assess and manage the impact of risks on its business The more significant risks and uncertainties faced by the Group, together with the Group's risk management process are detailed in the Corporate Governance report on pages 22 to 25

## Going concern

The Directors have prepared the financial statements on a going concern basis, having satisfied themselves from a review of internal budgets and forecasts and current bank facilities that the Group has adequate resources to continue in operational existence for the foreseeable future The going concern basis is, accordingly, adopted in preparing the financial statements

On behalf of the Board

**Nigel Majewski**
Finance Director
14 April 2008

image removed

image removed

image removed

image removed

image removed

image removed

# Board of Directors

1

image removed

2

image removed

3

image removed

4

image removed

5

image removed

6

image removed

7

image removed

8

image removed

## Executive Directors

### 1 Robert Watson OBE

Chief Executive

Robert joined the Hilton Food Group as Chief Executive in 2002 and has overseen the successful growth of the Company over the last five years Prior to this, he worked for Foyle Food Group Limited, based in Northern Ireland, of which he was a founder in 1977 Foyle Food Group Limited remains a supplier of meat products to the Hilton Food Group

### 2 Nigel Majewski

Finance Director

Nigel is a Chartered Accountant who, following 11 years in senior finance roles with PepsiCo between 1995 and 2006 and prior to that five years' meat industry experience in senior finance roles with Bernard Matthews, joined the Hilton Food Group as Finance Director in 2006

### 3 Colin Patten

Commercial Director

Colin joined the Hilton Food Group at its inception in 1994 as Commercial Director, responsible for procurement and business development, having worked in a similar role for the Group's UK subsidiary Hilton Meats (Retail) Limited for the same period and prior to that in meat wholesaling and packing

### 4 Philip Heffer

Tesco Business Director

Philip joined the Hilton Food Group at its inception in 1994, as Managing Director, having worked in a similar role for the Group's UK subsidiary Hilton Meats (Retail) Limited for the same period In 2004 Philip was appointed to his current role as Managing Director for the Hilton Food Group's UK and Irish businesses, with overall responsibility for all business with Tesco within the Hilton Food Group Prior to this, Philip held senior positions within the RWM Food Group Limited, which remains a supplier of meat products to the Hilton Food Group

### 5 Theo Bergman

Ahold Business Director

Theo joined the Hilton Food Group in 2000 as Managing Director of the Group's Dutch subsidiary, Hilton Meats Zaandam BV In 2003, Theo was appointed European Operations Director responsible for the start up of new operations in Europe and as the main liaison for all business with Ahold Prior to joining the Hilton Food Group, Theo held senior logistics and general management positions with Ahold between 1987 and 2000

## Non-Executive Directors

### 6 Gordon Summerfield CBE [snu]

Non-Executive Chairman

Gordon joined the Hilton Food Group in 2003, as Non-Executive Chairman, after more than 40 years in the food industry with Northern Foods plc and Unigate plc Gordon was President of the Dairy Trade Federation between 1994 and 1997, a council member of the Institute of Grocery Distribution between 1991 and 1998 and Chairman of Food from Britain from 2000 to 2005 Gordon is Chairman of the Nomination Committee

### 7 Chris Marsh [slnu]

Non-Executive Director

Chris joined the Hilton Food Group in 2007, as a Non-Executive Director Chris is a corporate broker by background, he joined Phillips and Drew in 1968 and headed the Small Cap broking team at UBS Limited (London) from 1993 until his retirement in 1998 From 1999 to 2004 he was part of the corporate finance team at Benfield Group Chris is currently Non-Executive Chairman of Alexandra plc and Framlington AIM VCT 2 plc Chris is Chairman of the Audit Committee and the Senior Independent Director

### 8 Sir David Naish DL [slnu]

Non-Executive Director

Sir David joined the Hilton Food Group in 2007, as a Non-Executive Director, after retiring from the Chairmanship of Arla Foods UK plc Sir David is a past President of the National Farmers Union and is currently Chairman of his family farming businesses, a director of Wilson Insurance Broking Group Limited and Cauton Investments Limited, in addition to being a Non-Executive Director of Woodard Schools (Nottinghamshire) and a Trustee of several charities related principally to the agrifood industry and education Sir David is Chairman of the Remuneration and Related Party Supply Committees

Chris Marsh and Sir David Naish are considered to be independent

s Member of the Remuneration Committee
l Member of the Audit Committee
n Member of the Nomination Committee
u Member of the Related Supply Committee

# Directors' report

The Directors present their report and the audited financial statements for the year ended 31 December 2007

## Principal activities, business review and future developments

The Group's activities comprise specialist meat packing for international food retailers A review of the business and future development of the Group and a discussion of the principal risks and uncertainties faced by the Group is presented in the Chief Executive's review on page 8 and the Group Operating and Financial review on pages 10 to 15

## Results and dividends

The profit before taxation is £13 7m (2006 £15 5m) After a taxation charge of £4 2m (2006 £4 8m) and minority interests of £0 7m (2006 £0 7m) the net income for the period is £8 8m (2006 £10 0m) An interim dividend of 2 2p per ordinary share was paid in December 2007 The Directors recommend the payment of a final dividend for the period, which is not reflected in these accounts, of 5 2p per ordinary share, which, together with the interim dividend, represents 7 4p per ordinary share, totalling £5 2m

Subject to approval at the Annual General Meeting, the final dividend will be paid on 11 July 2008 to members on the register at the close of business on 13 June 2008 Shares will be ex dividend on 11 June 2008

## Financial instruments

The Group's risk management objectives and policy are discussed in the Treasury policy section of the Group Operating and Financial review on pages 10 to 15

## Directors

The Directors of the Company currently in office, together with their biographical details, are as set out on pages 16 to 17 Chris Marsh and Sir David Naish were appointed on 29 March 2007 All the other Directors served for all the year under review being appointed as Directors of the Company on 29 March 2007, having served previously as Directors of Hilton Foods Limited (formerly Hilton Food Group Limited) whose business was acquired by the Company by reverse acquisition on 30 March 2007 All the Directors retire in accordance with the Articles of Association and, being eligible, each offers himself for re-election

## Political and charitable donations

During the year the Group made charitable donations amounting to £5,871 (2006 £956) No donations for political purposes were made during the year (2006 £nil)

## Employment policies

The Group's policy on employees involves the maintenance of an open management style, keeping employees informed of matters affecting them as employees and the financial and economic factors affecting the Group's performance This is achieved through meetings, newsletters and informal consultation at all levels Employees will be able to participate directly in the success of the business by contributing to a sharesave share option scheme, subject to the proposed scheme being approved at the forthcoming Annual General Meeting

Employment policies are designed to provide equal opportunities irrespective of nationality, sex, colour, ethnic or natural origin or marital status Applications for employment by disabled persons are given full and fair consideration for all vacancies in accordance with their particular aptitudes and abilities In the event of employees becoming disabled, every effort is made to retrain them in order that their employment with the Company can continue It is the policy of the Group that training, career development and promotion opportunities should be available to all employees

## Payment of suppliers

The Group's policy is to adhere to the terms of payment agreed with individual suppliers when terms of business are established At 31 December 2007 the Group's trade creditors represented 41 days of purchases (2006 38 days)

## Share capital

The movement in share capital during the year is detailed in note 26 to the financial statements

## Directors' interests

The interests of the Directors, as defined by the Companies Act 1985, in the ordinary shares of the Company are as follows

| | On 31 December 2007 Ordinary Shares |
|---|---|
| G Summerfield | 66,666 |
| R Watson | 2,869,167 |
| C Patten | 4,312,500 |
| P Heffer | 4,174,500 |
| N Majewski | 13,333 |
| T Bergman | 328,333 |
| C Marsh | 30,000 |
| D Naish | 20,000 |

All of the above interests are beneficial, with the exception of 431,250 shares held by the R A Watson Discretionary Settlement

On 4 April 2008 P Heffer sold 2,000,000 ordinary shares at a price of £1 79 per share and his wife J Heffer acquired 2,000,000 ordinary shares at a price of £1 79 per share With this exception, no Directors have acquired or disposed of any ordinary shares in the Company during the period from the end of the financial year to the date of this report

The Company was incorporated in England and Wales on 16 March 2007 On 30 March 2007 it acquired the entire share capital of Hilton Foods Limited as part of a reverse acquisition The entire share capital of Hilton Foods Limited was at 31 December 2006 owned by three companies Heffer Investments Limited, Foyle Food Group Limited and Hilton Meats (International) Limited, in which P Heffer, R Watson and C Patten, respectively, had, together with their families, an interest

## Major shareholders

As at the date of this report, the Company has been informed of the following interests in 7,093,531 ordinary shares of the Company, as required by the Companies Act 1985

| | Number of shares | Percentage of issued share capital |
|---|---|---|
| F&C Asset Management plc | 3,593,531 | 5 16% |
| Irish Food Processors | 3,500,000 | 5 02% |

## Auditors

PricewaterhouseCoopers LLP have expressed their willingness to continue in office and a resolution proposing their reappointment will be submitted at the Annual General Meeting

## Directors' statement as to disclosure of information to auditors

The Directors who were members of the Board at the time of approving the Directors' Report are listed on pages 16 to 17 Having made enquiries of fellow Directors, each of these Directors confirm that

- to the best of each Director's knowledge and belief, there is no audit information relevant to the preparation of their report of which the Company's auditors are unaware, and
- each Director has taken all the steps a Director might reasonably be expected to have taken to be aware of any relevant audit information and to establish that the Company's auditors are aware of that information

## Annual General Meeting

The Notice convening the Annual General Meeting can be found in the separate Notice of Annual General Meeting accompanying this Report and Accounts

Shareholders will be invited to approve the Remuneration report set out on pages 20 to 21 and to approve a sharesave share option scheme for all the Group's employees

By order of the Board

**Neil George**
Secretary
14 April 2008

# Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report, the Directors' remuneration report and the financial statements in accordance with applicable law and regulations

Company law requires the Directors to prepare financial statements for each financial year Under that law the Directors have prepared the Group and parent company financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union The financial statements are required by law to give a true and fair view of the state of affairs of the Company and the Group and the profit and loss of the Group for that period

In preparing these financial statements the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state that the financial statements comply with IFRS as adopted by the European Union and IFRS issued by IASB, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group will continue in business, in which case there should be supporting assumptions or qualifications as necessary

The Directors confirm that they have complied with the above requirements in preparing the financial statements

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements and the Directors' remuneration report comply with the Companies Act 1985 and article 4 of the IAS Regulation They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

# Directors' remuneration report

Information not subject to audit

## Remuneration Committee

The Remuneration Committee comprises the Non-Executive Directors, Sir David Naish (Chairman of the Committee), Gordon Summerfield and Chris Marsh As appropriate, the Committee invites the Chief Executive Officer to participate in its discussions, in an advisory capacity The Committee is responsible for determining the terms and conditions of the Company's Executive Directors and puts forward its recommendations for approval by the Board It is also responsible for considering management recommendations for remuneration and employment terms for the Group's senior staff, including incentive arrangements for bonus payments and the grant of share options The Committee had not taken independent advice during the year, but is currently undertaking a review of senior executive remuneration with the assistance of Hewitt New Bridge Street, which provides no other services to the Company

The remuneration of the Non-Executive Directors is determined by the Chairman and the Executive Directors and reflects the time, commitment and responsibility of their roles

## Remuneration policy

The Company's policy is that the overall remuneration package offered by the Company should reward individuals for the nature of the jobs they undertake and their performance therein, whilst being sufficiently competitive to attract and retain high quality, well motivated staff whose rewards are aligned both to the progress of the Company and those of similar companies in comparable sectors and geographical regions It is intended that, over time, a significant proportion of the remuneration package will comprise performance related elements

## Constituent elements of Executive Directors' remuneration package

In applying the above principles to the determination of the remuneration of Executive Directors, the Committee gives consideration to the following components of their total remuneration package

Basic salary
Basic salary is reviewed annually, with reviews being effective from 1 January in each year

Benefits in kind
These comprise private healthcare and the provision of a company car and fuel

Bonus schemes
A formal bonus scheme was not put in place for the UK based Executive Directors for the year in which the Company was floated, but it is intended in future years, in consultation with our advisers, to provide appropriate incentives to all Executive Directors, in order to encourage enhanced performance, based on the achievement of Group profit targets and other KPI's

Pensions
Employer contributions are made to Executive Directors' 'money purchase' pension schemes at the rates set out in their service contracts, which are up to 7% for R Watson, C Patten, P Heffer and N Majewski and 20% for T Bergman No contributions are made in respect of Non-Executive Directors

Long Term Incentive Arrangements
Executive share options can be proposed by the Remuneration Committee and will be granted periodically to promote the involvement of senior management across the Group in the longer term success of the Group, to promote retention and the alignment of the interests of senior executives and shareholders It is intended that the first grant of executive options will be made following the publication of the Company's Annual report and financial statements Performance conditions have to be achieved before the options become exercisable

The Company also intends, subject to approval at the Annual General meeting, to offer a sharesave share option scheme to all employees, which by its nature does not have performance conditions, in which the Executive Directors will be eligible to participate

## Service contracts

The current service contracts with all Executive Directors commenced on 24 April 2007 and can be terminated upon 12 months notice by either party

Each of the Non-Executive Directors entered into a letter of appointment with the company dated 24 April 2007 Their appointments are for an initial period of three years, terminable upon six months notice by either party

The Non-Executive Directors receive the fees set out in their letters of appointment

## Total shareholder return (TSR) performance

The graph below illustrates the TSR performance (share price movements plus reinvested dividends) of Hilton Food Group against the FTSE Small Cap Index since the Company's flotation on 17 May 2007 The FTSE Small Cap Index is, in the opinion of the Directors, the most appropriate index against which the TSR of the Company should be measured

image removed

Auditable information

The following information has been audited by the Company's auditors, PricewaterhouseCoopers LLP, as required by the Companies Act 1985

## Directors' remuneration

The remuneration of Directors for the year was as follows

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Fees and basic salary | 1,254 | 1,265 |
| Bonuses | 62 | 77 |
| Benefits in kind | 109 | 92 |
| | 1,425 | 1,434 |
| Pension contributions | 105 | 43 |
| | 1,530 | 1,477 |

The remuneration of individual Directors, including pension contributions, is set out below

| | Fees and basic salary £'000 | Bonuses £'000 | Benefits in kind £'000 | Total 2007 £'000 | Total 2006 £'000 | Pension 2007 £'000 | Pension 2006 £'000 |
|---|---|---|---|---|---|---|---|
| Executive Directors | | | | | | | |
| R Watson | 275 | – | 31 | 306 | 280 | 19 | – |
| C Patten | 230 | – | 18 | 248 | 250 | 17 | – |
| P Heffer | 230 | – | 29 | 259 | 227 | 16 | – |
| T Bergman | 198 | 37 | 21 | 256 | 252 | 39 | 43 |
| N Majewski | 191 | 25 | 10 | 226 | 53 | 14 | – |
| Non-Executive Directors | | | | | | | |
| G C Summerfield | 72 | – | – | 72 | 372 | – | – |
| C Marsh | 29 | – | – | 29 | – | – | – |
| D Naish | 29 | – | – | 29 | – | – | – |
| Total | 1,254 | 62 | 109 | 1,425 | 1,434 | 105 | 43 |

The interests of the Directors in the shares of the Company are set out in the Directors' report on pages 18 to 19

On behalf of the Board

**Sir David Naish DL**
Chairman of the Remuneration Committee
14 April 2008

image removed

# Corporate Governance report

The Board supports high standards of corporate governance, which is the responsibility of the Board as a whole This report and the Directors' remuneration report on pages 20 to 21, set out how the Board applies the principles of good governance and best practice as set out in the Combined Code on Corporate Governance (the "Combined Code") A statement of full compliance, taking into account the provisions for smaller companies, can be found at the end of this report.

## The Board

The Board consists of five Executive Directors and three Non-Executive Directors The Non-Executive Directors include the Non-Executive Chairman and the Senior Independent Director The names of the Directors, together with their responsibilities, brief biographies and membership of Board Committees are set out on pages 16 to 17

The Board meets not less than eight times a year, to direct and control the strategy and operating performance of the Group The schedule of matters reserved for decision by the Board covers acquisitions and disposals, major capital expenditure projects, dividends, treasury and risk management policies and budget approval

Day to day decisions in relation to procurement and supply chain management, factory operations and customer liaison are delegated to senior management at each site

To assist them to carry out their responsibilities the Directors have full and timely access to all relevant information from management in advance of Board meetings The Board operates both formally, through Board and Committee meetings, and informally, through regular contact between Directors The Directors can obtain independent professional advice at the Company's expense and the advice and services of the Company Secretary to enable them to perform their duties as Directors The Company Secretary is responsible to the Board, through the Chairman, for all governance matters The appointment and removal of the Company Secretary is determined by the Board as a whole

The Chairman carries out a performance evaluation of the Board and its committees and meets with the Non-Executive Directors at least once a year to convey his conclusions The Non Executive Directors, for their part, meet once a year, without the Chairman present, in order to evaluate his performance

The Company's Articles of Association provide that one-third of the Directors retire by rotation at each Annual General Meeting and that all new Directors are subject to election by shareholders at the first opportunity, following their appointment All the Directors retire in accordance with the Articles of Association at the forthcoming Annual General Meeting and, being eligible, each offers himself for re-election

## Board Committees

### Audit Committee

The Audit Committee, which meets at least three times a year, comprises two Non-Executive Directors excluding the Chairman and is chaired by Chris Marsh, who has significant and relevant current financial experience The Finance Director and the Group Financial Controller, together with the external auditors, attend the Audit Committee meetings, as appropriate The external auditors have the opportunity for direct access to the Committee, without the Executive Directors being present, and the Committee meets at least once a year without the Executive Directors being present

The Committee reviews the Group's accounting policies and internal accounting and control reports, together with all reports from the external auditors The Committee has overall responsibility for monitoring the integrity of financial statements and related announcements, together with all aspects of internal control The Committee meets at least three times a year to review the Group's interim and full year financial statements and consider the extent and effectiveness of the work of the internal audit function The Committee is responsible for the appointment, reappointment or removal of the external auditors and for monitoring their effectiveness, remuneration and terms of engagement, including the nature and level of non-audit services The Board reviews annually the Group's systems of internal control on the basis of a report by the Audit Committee

There is a whistleblowing policy being put in place, in accordance with which staff can, in confidence, raise any concerns about any actual or potential improprieties, in relation to matters of financial reporting or any other aspect of the Group's businesses

The Chairman of the Audit Committee will be available at the Annual General Meeting to respond to any shareholder questions

### Remuneration Committee

The Remuneration Committee, which meets at least three times a year, comprises the three Non-Executive Directors, chaired by Sir David Naish No Director attends any part of a meeting at which his own remuneration is discussed and the Executive Directors determine the remuneration of the Non-Executive Directors

The Committee recommends to the Board the policy for Executive Directors remuneration and terms and conditions of service and determines the performance conditions for bonus and incentive schemes and the issue of executive share options It also recommends and monitors the level and structure of senior management remuneration immediately below Board level The Committee has access to advice form the Company Secretary and such external analyses of remuneration in comparable companies as it may require Details of the Committees current remuneration policies are set out in the Directors' remuneration report on pages 20 to 21

The Chairman of the Remuneration Committee will be available at the Annual General Meeting to respond to any shareholder questions

## Nomination Committee

The Nomination Committee comprises the three Non-Executive Directors, chaired by Gordon Summerfield It will meet, as required, in order to propose to the Board new appointments of Executive and Non-Executive Directors In a very stable environment, the Committee has not been required to meet after its first meeting, in order to consider any such appointments, during 2007

The Chairman of the Nomination Committee will be available at the Annual General Meeting to respond to any shareholder questions

## Related Supply Committee

The Related Supply Committee comprises the three Non-Executive Directors, chaired by Sir David Naish

The Committee's primary responsibility is to ensure that all commercial arrangements between the Group and shareholder owned suppliers (comprising Foyle Food Group Limited, Hilton Meats (International) Limited and RWM Food Group Limited and any of these three companies' subsidiaries) are conducted strictly on an arm's length basis and in accordance with the terms of the supply agreements agreed between the Group and those parties

The Committee monitors the quantity and terms of orders placed with shareholder suppliers and the shareholder supplier's performance and is authorised to seek any information it requires, whether from employees of the Group or externally The Committee reports to the Board on issues, recommendations and decisions it has made

The Chairman of the Related Supply Committee will be available at the Annual General Meeting to respond to any shareholder questions

## Risk Management Committee

The Risk Management Committee is chaired by the Finance Director, Nigel Majewski and comprises the five operating subsidiary company operations managers and the Group Internal Auditor, together with other personnel throughout the Group, as requested The Committee meets regularly and at least eight times a year, its principal functions are, to raise the level of management awareness of, and accountability for, business risks faced, embed risk management into the Group culture, provide a mechanism for risk management issues to be discussed and disseminated and to provide advice on and co-ordinate risk management strategies across the Group, ensuring they receive the appropriate level of sponsorship and support

The Committee is authorised to seek any information it requires from Group employees as well as any external legal or professional advice it requires and reports to the Board following each meeting

The Chairman of the Risk Management Committee will be available at the Annual General Meeting to respond to any shareholder questions

image removed

## Meetings attendance

Details of meetings of, and members attendance at, the Board, Audit, Remuneration, Risk Management, Related Supply and Nomination Committees are set out below

| | Board | Audit Committee | Remuneration Committee | Risk Management Committee | Related Supply Committee | Nomination Committee |
|---|---|---|---|---|---|---|
| Number of meetings | 9 | 4 | 2 | 7 | 2 | 1 |
| R Watson | 9 | | | | | |
| C Patten | 9 | | | | | |
| P Heffer | 9 | | | | | |
| T Bergman | 8 | | | | | |
| N Majewski | 8 | 3 | | 6 | | |
| G Summerfield | 9 | 4 | 2 | | 2 | 1 |
| C Marsh | 9 | 4 | 2 | | 1 | 1 |
| D Naish | 8 | 4 | 2 | | 2 | 1 |

# Corporate Governance report

continued

## Risk management

Risks are formally reviewed by the Board on a regular basis and appropriate processes put in place to monitor and mitigate them The key business risks affecting the Group's businesses are set out in the following paragraphs

The Group is dependent on a small number of customers who exercise significant buying power and influence
Hilton has a limited customer base, with sales to Tesco, Ahold (and its subsidiaries) and ICA currently comprising all Hilton's revenue and the Group does not have written supply contracts with all its customers The large retail chains are increasing their market share of meat and meat products in many countries as retail customers move away from high street butchers towards one stop convenience shopping in large supermarkets The continuation of this trend is likely to increase the buying power of the Group's customers which may increase their negotiating power with the Group which may enable them to seek better terms over time

Hilton's state of the art facilities, and management's focus on reducing costs, allow it to operate efficiently at high throughputs and price its products competitively The Group's customer driven business model is focused solely on central meat packing and is unencumbered by the issues faced by the majority of the Group's competitors who are involved in upstream processing, including rearing, slaughtering and cutting

The Group focuses on and achieves high service levels in terms of orders delivered, delivery times, compliance with product specifications and accuracy of documentation and has an uncompromising focus on food safety and product integrity

The Group's potential for growth is dependent on the brands of its customers and the future growth of their packed meat sales
All of the Group's products bear the brand of the customer to whom the products are supplied The Group is therefore dependent on its customers to maintain or improve the public perception of their own brand names and sales of packed meat, but will play its full part by providing high quality competitively priced products, high service levels and continuing innovation

The Group recognises that quality is integral to its customers' brands and works closely with its customers to ensure rigorous quality assurance standards are met It is measured by its customers along a range of parameters, including delivery time, product specification and accuracy of documentation and targets high service levels across these parameters The Group works with its customers to identify improvement opportunities across the supply chain These improvements include extending shelf life and reducing wastage by enhancing facilities, hygiene and handling and working with customers to develop new product formats

The Group's business is reliant on a number of key personnel and its ability to manage growth successfully
The Group is critically dependent on the skills of a small number of senior managers and, as the business develops and expands, the Group's success will depend on its ability to attract and retain the necessary calibre of personnel in key positions To continue to manage growth successfully, the Group will carefully manage its skill resources and continue to invest in on the job training and career development, together with the cost-effective management of quality, scaleable information and control systems

The Group's business is dependent on maintaining a wide and flexible global meat supply base
The Group is reliant on its suppliers to provide sufficient volume of products on time as ordered by its customers The Group sources certain of its meat requirements from outside the European Union, for example South America and New Zealand Tariffs, quotas or trade barriers imposed by countries where the Group procures meat or may do so in the future and the progress of World Trade Organisation talks and other global trade developments could materially affect the Group's international procurement ability, making the maintenance of a wide and flexible global meat supply base essential

Outbreaks of disease affecting livestock and media concerns can impact the Group's sales
Reports in the public domain concerning the risks of consuming meat can cause consumer demand for meat to drop significantly in the short to medium term A food scare similar to the Bovine Spongiform Encephalopathy ("BSE") scare that took place in 1996 could affect public confidence in red meats

The Group sources its meat from a trusted raw material supply base which all meet European and customer standards The Group is subject to stringent standards which are independently monitored in every country and reliable product traceability and high welfare standards from the farm to the consumer are integral to the Group's business model The Group ensures full traceability from source to packed product across all suppliers, countries and packing sites

## Relations with shareholders

The Board's assessment of the Company's position and prospects are set out in the Chairman's statement, the Chief Executive's review and the Group Operating and Financial review on pages 6 to 15

The Chief Executive and Finance Director meet regularly with institutional shareholders to discuss the Company's performance and prospects The views of institutional shareholders expressed at these meetings are reported back to the Board The other Executive Directors are available to meet the Company's major shareholders, if required, and the Senior Independent Director is available to listen to the views of shareholders, should they have concerns which have not been previously resolved or which it was inappropriate to voice at prior meetings

## Going concern

The Directors have prepared the financial statements on a going concern basis, having satisfied themselves from a review of internal budgets and forecasts and current bank facilities that the Group has adequate resources to continue in operational existence for the foreseeable future

## Internal control

The Board of Directors has overall responsibility for the Group's systems of internal control, including financial, operational and compliance controls and risk management, which safeguards the shareholders' investment and the Group's assets, and for reviewing its continuing effectiveness Such a system can only provide reasonable and not absolute assurance against material misstatement or loss, as it is designed to manage rather than eliminate risk of failure to meet business objectives

The Group operates within a clearly defined organisational structure with established responsibilities, authorities and reporting lines to the Board The organisational structure is designed to plan, execute, monitor and control the Group's objectives effectively and ensure internal control becomes embedded in all the Group's operations The Board confirms that key ongoing processes and features of the Group's internal risk based control system have been fully operative up to the date of the Annual Report being approved

These include

- a process to identify and evaluate business risk,
- a strong control environment,
- an information and communication process,
- a monitoring system and regular Board reviews for effectiveness

The Finance Director and Group Financial Controller are responsible for overseeing the Group's internal controls

The management of the Group's businesses have identified the key business risks within their operations, considered the financial implications and assessed the effectiveness of the control processes in place to mitigate these risks The Board has reviewed a summary of these findings and this, together with their direct involvement in the strategies of the business, investment appraisal and budgeting processes, has enabled the Board to report on the effectiveness of the Group's internal control systems

## Auditor independence

The Board is satisfied that PricewaterhouseCoopers LLP has adequate policies and safeguards in place to ensure that auditor objectivity and independence is maintained The Company meets its obligations for maintaining the appropriate relationship with the external auditors through the Audit Committee whose terms of reference include an obligation to consider and keep under review the degree of work undertaken by the external auditors, other than the statutory audit, to ensure such objectivity and independence is safeguarded

## Compliance with the Combined Code

The Directors consider that the Company has, during the year to 31 December 2007, complied with the requirements of the Combined Code, taking into account the provisions for smaller companies

By order of the Board

**Neil George**
Secretary
14 April 2008

# Corporate Social Responsibility report

The Group believes in working with customers, suppliers, communities and competitors in an ethical, open and honest manner The philosophies which underpin its policies for Health and Safety, Regulatory Compliance, the Environment, Product Quality and Integrity and Business Conduct are outlined below

## Health and safety

Health and safety has a very high priority within the Group The Group requires all its subsidiaries to achieve high health and safety standards within their individual operations All subsidiaries conduct regular formal health and safety reviews Managers and employees review policies, processes and procedures in order to ensure that risks are properly assessed, with appropriate actions taken in order to protect the safety of employees

All accidents and incidents are fully investigated so as to ensure appropriate avoidance or remedial actions are taken and subsequently monitored Formal reporting procedures are in place at every site so that the Group can monitor safety performance at a local level There is a full time safety officer at each site who monitors the key measures for safety performance, which include the number of reportable and non reportable injuries and incidents and the number of working days lost through injury, together with short- and long-term sickness levels

## Regulatory compliance

As an international food business the Group is required to comply fully at all times with a growing body of EU and local country legislation and regulations as well as meeting the very stringent standards required by its retail partners in areas such as food safety, quality and traceability These areas are subject to audit by the Group's customers, in addition to regular internal audits which extend beyond the Group's operations to the Group's meat and packaging suppliers

## Environmental policy

The Group recognises that the protection of the environment is of fundamental importance to any successful and responsible business strategy In the context of the total carbon footprint of packed meat, the Group's packing activity represents a small proportion, but the Group takes pride in the conduct of its business activities and is committed, working closely with its customers, to minimising its environmental impact in all the counties in which it operates

Environmental compliance

The Group is in compliance with all the environmental regulations, permits and consent limits which apply to each of its packing plants in each country of operation and views such compliance as a high priority, looking to make continuing improvements with respect to the environment in all its operations

Wastage reduction

The reduction of product and packaging waste has a very high priority across the Group, as wastage reduction at the same time minimises both product costs and the Group's environmental impact The yield loss incurred in processing and packing meat and packaging wastage are vital key performance indicators monitored throughout each day at every site

Investment strategy

The Group invests heavily in maintaining state of the art high speed packing facilities, which progressively reduce unit energy costs per unit packed, as with the development of packing technology any given volume of meat can be packed with fewer high speed lines

The Group's retail partners

The Group's retail partners are all heavily committed to the protection of the environment, with a very wide range of initiatives, including packaging reduction, in which the Group fully participates

## Social, ethical and environmental risks

The Board carries out a broad review of all business risks, as highlighted in the Corporate Governance report on pages 22 to 25 The scope of this review covers social, environmental and ethical matters and is aimed at identifying significant risks to shareholder value, whilst providing the Board with an opportunity to manage any risks identified

## Suppliers

The Group's corporate social responsibility is reflected in the way we behave with our suppliers, which is open, consistent and honest. The Group agrees terms and conditions prior to doing business and pays supplier invoices in accordance with the agreed payment terms At 31 December 2007, the amount owed by the Group to trade creditors equated to 41 days of purchases from trade suppliers

## Product traceability

At a time when consumers are concerned about the origins of the meat they are purchasing, the Group ensures that every pack of meat can be traced back to its source, across all suppliers, sites and countries, so as to be able to justify consumers' trust in our customers' products

## Human resources

Attracting and retaining high calibre employees is essential to continue to improve the Group's performance and drive its continuing growth, the development and motivation of our employees is a high priority The Group provides equal opportunity for employment, training and career development and promotion regardless of age, sex, colour, race, religion, ethnic origin or other minority groupings The Group encourages the employment of disabled people, when suitable vacancies are available, and, wherever possible, retrains employees who become disabled, to enable them to do work consistent with their aptitudes and abilities Where practicable, a flexible approach is adopted to assist employees to manage a successful work life balance

Given the geographical spread of the Group's operations, it is both inappropriate and impractical to apply standard employee consultation and communication procedures across the Group Each subsidiary is accordingly responsible for achieving and maintaining appropriate consultation and communication with its employees, which include at all production sites joint management and employee committee meetings on Health and Safety and meetings with employees and union representatives to discuss issues affecting them

Over recent years the Group has invested heavily in robotic storage and transfer systems within its packing plants Such investment, which maximises the available storage space, also sharply reduces the potential level of employee injuries

Hilton operates to high standards of employment practice The Group has ethnically diverse workforces, who, at each location, receive the same terms and conditions for comparable jobs

## Community involvement

Small but regular donations are made to local institutions and cultural events and the Group seeks to be a good neighbour in all its locations Each operating company and its employees are encouraged to become involved with and support their local communities

## Summary

All the Group's employees are expected to behave ethically in their work and adhere to the Group's ethical standards As an international group of companies, we are fully aware of the broad spread of our responsibilities in all the countries in which we operate, from protecting the environment, to safeguarding the health and safety of our employees, ensuring honesty, integrity and fairness in all our business dealings and operating our businesses internationally in a safe and responsible manner

# Independent auditors' report to the members of Hilton Food Group plc

We have audited the Group and parent company financial statements (the "financial statements") of Hilton Food Group plc for the year ended 31 December 2007 which comprise the Consolidated Income Statement, the Consolidated and Company Balance Sheets, the Consolidated and Company Cash Flow Statements, the Consolidated and Company Statements of Changes in Equity and the related notes These financial statements have been prepared under the accounting policies set out therein We have also audited the information in the Directors' remuneration report that is described as having been audited

## Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the Annual Report, the Directors' remuneration report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' responsibilities

Our responsibility is to audit the financial statements and the part of the Directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation We also report to you whether in our opinion the information given in the Directors' report is consistent with the financial statements

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed

We review whether the Corporate Governance report reflects the Company's compliance with the nine provisions of the Combined Code (2006) specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements The other information comprises only the Directors' report, the unaudited part of the Directors' remuneration report, the Chairman's statement, the Chief Executive's review, the Group Operating and Financial review, the Corporate Governance report and the Corporate Social Responsibility report We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements Our responsibilities do not extend to any other information

## Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' remuneration report to be audited It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' remuneration report to be audited

## Opinion

In our opinion

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2007 and of its profit and cash flows for the year then ended,
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 December 2007 and cash flows for the year then ended,
- the financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation, and
- the information given in the Directors' report is consistent with the financial statements

PricewaterhouseCoopers LLP

**PricewaterhouseCoopers LLP**
Chartered Accountants and Registered Auditors

Belfast

14 April 2008

The maintenance and integrity of the Hilton Food Group plc website is the responsibility of the Directors, the work carried out by the auditors does not involve consideration of these matters and, accordingly the auditors accept no responsibility for any changes that may have occurred to the interim report since it was initially presented on the website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

# Consolidated income statement for the year ended 31 December 2007

| Continuing operations | Notes | 2007 £'000 | 2006 £'000 |
|---|---|---|---|
| Revenue | 6 | **577,734** | 526,663 |
| Cost of sales | | **(495,632)** | (452,047) |
| Gross profit | | **82,102** | 74,616 |
| Distribution costs | | **(6,299)** | (5,990) |
| Administrative expenses | | **(58,366)** | (52,927) |
| Restructuring and flotation costs | 10 | **(1,780)** | - |
| Operating profit | 8 | **15,657** | 15,699 |
| Finance income | 11 | **1,433** | 824 |
| Finance costs | 11 | **(3,416)** | (1,038) |
| Finance costs – net | 11 | **(1,983)** | (214) |
| Profit before income tax | | **13,674** | 15,485 |
| Income tax expense | 12 | **(4,158)** | (4,824) |
| Profit for the year | | **9,516** | 10,661 |

| | | |
|---|---|---|
| Attributable to | | |
| Equity holders of the Company | **8,820** | 9,986 |
| Minority interest | **696** | 675 |
| | **9,516** | 10,661 |

| | | | |
|---|---|---|---|
| Earnings per share for profit attributable to the equity holders of the Company during the year | | | |
| – Basic and diluted (pence) | 13 | **12 7** | 14 3 |

The notes on pages 34 to 55 are an integral part of these consolidated financial statements

# Consolidated balance sheet as at 31 December 2007

| | Notes | Group 2007 £'000 | Group 2006 £'000 | Company 2007 £'000 | Company 2006 £'000 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Non-current assets | | | | | |
| Property, plant and equipment | 15 | 42,286 | 43,576 | – | – |
| Intangible assets | 16 | 3,987 | 3,947 | – | – |
| Investment in subsidiary undertakings | 17 | – | – | 102,985 | – |
| Deferred income tax assets | 25 | 1,273 | 1,219 | – | – |
| | | 47,546 | 48,742 | 102,985 | – |
| Current assets | | | | | |
| Inventories | 19 | 9,654 | 9,525 | – | – |
| Trade and other receivables | 20 | 50,993 | 41,037 | – | – |
| Current income tax assets | | – | – | 404 | – |
| Cash and cash equivalents | 21 | 20,792 | 22,327 | 1 | – |
| | | 81,439 | 72,889 | 405 | – |
| Total assets | | 128,985 | 121,631 | 103,390 | – |
| Capital and reserves attributable to equity holders of the Group | | | | | |
| Share capital | 26 | 6,966 | 200 | 6,966 | – |
| Other reserves | | 896 | (102) | – | – |
| Retained earnings | | 12,039 | 29,451 | 25 | – |
| | | 19,901 | 29,549 | 6,991 | – |
| Reverse acquisition reserve | | (31,700) | – | – | – |
| Merger reserve | | 919 | – | 71,019 | – |
| | | (10,880) | 29,549 | 78,010 | – |
| Minority interest in equity | | 367 | 1,288 | – | – |
| Total equity | | (10,513) | 30,837 | 78,010 | – |
| **Liabilities** | | | | | |
| Non-current liabilities | | | | | |
| Borrowings | 22 | 50,302 | 10,196 | – | – |
| Deferred income tax liabilities | 25 | 1,580 | 1,300 | – | – |
| Other non-current liabilities | 24 | 264 | 1,850 | – | – |
| | | 52,146 | 13,346 | – | – |
| Current liabilities | | | | | |
| Borrowings | 22 | 6,682 | 6,065 | – | – |
| Trade and other payables | 23 | 78,856 | 69,740 | 25,380 | – |
| Current income tax liabilities | | 1,814 | 1,643 | – | – |
| | | 87,352 | 77,448 | 25,380 | – |
| Total liabilities | | 139,498 | 90,794 | 25,380 | – |
| Total equity and liabilities | | 128,985 | 121,631 | 103,390 | – |

The notes on pages 34 to 55 are an integral part of these consolidated financial statements

The financial statements were approved by the Board on 14 April 2008 and were signed on its behalf by

R A Watson, Director

N Majewski, Director

# Consolidated statement of changes in equity

| Group | Notes | Share capital £'000 | Other reserves £'000 | Other earnings £'000 | Sub total £'000 | Reserve acquisition reserve £'000 | Merger reserve £'000 | Total £'000 | Minority interest £'000 | Total equity £'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Attributable to equity holders of the Company | | | | | | | | |
| Balance at 1 January 2006 | | 200 | (31) | 23,665 | 23,834 | – | – | 23,834 | 1,179 | 25,013 |
| Currency translation differences | | – | (71) | – | (71) | – | – | (71) | (21) | (92) |
| Profit for the year | | – | – | 9,986 | 9,986 | – | – | 9,986 | 675 | 10,661 |
| Total recognised income and expense for 2006 | | – | (71) | 9,986 | 9,915 | – | – | 9,915 | 654 | 10,569 |
| Dividends paid | 14 | – | – | (4,200) | (4,200) | – | – | (4,200) | (545) | (4,745) |
| Balance at 31 December 2006 | | 200 | (102) | 29,451 | 29,549 | – | – | 29,549 | 1,288 | 30,837 |
| Currency translation differences | | – | 998 | – | 998 | – | – | 998 | 51 | 1,049 |
| Profit for the year | | – | – | 8,820 | 8,820 | – | – | 8,820 | 696 | 9,516 |
| Total recognised income and expense for 2007 | | – | 998 | 8,820 | 9,818 | – | – | 9,818 | 747 | 10,565 |
| Dividends paid | 14 | – | – | (26,232) | (26,232) | – | – | (26,232) | (1,519) | (27,751) |
| Reverse acquisition of Hilton Foods Limited | 5 | 6,700 | – | – | 6,700 | (31,700) | – | (25,000) | – | (25,000) |
| Acquisition of minority shareholding | 17 | 66 | – | – | 66 | – | 919 | 985 | (149) | 836 |
| Balance at 31 December 2007 | | 6,966 | 896 | 12,039 | 19,901 | (31,700) | 919 | (10,880) | 367 | (10,513) |

| Company | Notes | Share capital £'000 | Other reserves £'000 | Other earnings £'000 | Sub total £'000 | Reserve acquisition reserve £'000 | Merger reserve £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|---|
| Profit for the year | | – | – | 1,557 | 1,557 | – | – | 1,557 |
| Total recognised income and expense for 2007 | | – | – | 1,557 | 1,557 | – | – | 1,557 |
| Dividends paid | 14 | – | – | (1,532) | (1,532) | – | – | (1,532) |
| Reverse acquisition of Hilton Foods Limited | 5 | 6,900 | – | – | 6,900 | – | 70,100 | 77,000 |
| Acquisition of minority shareholding | 17 | 66 | – | – | 66 | – | 919 | 985 |
| Balance at 31 December 2007 | | 6,966 | – | 25 | 6,991 | – | 71,019 | 78,010 |

The notes on pages 34 to 55 are an integral part of these consolidated financial statements

# Consolidated cash flow statement for the year ended 31 December 2007

| | Notes | Group 2007 £'000 | Group 2006 £'000 | Company 2007 £'000 | Company 2006 £'000 |
|---|---|---|---|---|---|
| Cash flows from operating activities | | | | | |
| Cash generated from operations | 27 | 23,591 | 26,481 | – | – |
| Interest paid | | (2,548) | (490) | (968) | – |
| Income tax paid | | (4,055) | (4,380) | – | – |
| Net cash generated from/(used in) operating activities | | 16,988 | 21,611 | (968) | – |
| Cash flows from investing activities | | | | | |
| Purchase of property, plant and equipment | | (10,853) | (20,028) | – | – |
| Proceeds from sale of property, plant and equipment | | 4,473 | 2,228 | – | – |
| Purchases of intangible assets | | (302) | (834) | – | – |
| Interest received | | 1,065 | 764 | 1 | – |
| Dividends received | | – | – | 2,500 | – |
| Net cash (used in)/generated from investing activities | | (5,617) | (17,870) | 2,501 | – |
| Cash flows from financing activities | | | | | |
| Proceeds from borrowings | | 47,546 | 4,810 | – | – |
| Repayments of borrowings | | (6,678) | (3,854) | – | – |
| Dividends paid to Company shareholders | | (26,232) | (4,200) | (1,532) | – |
| Dividends paid to minority interests | | (1,519) | (545) | – | – |
| Reverse acquisition of Hilton Foods Limited | | (25,000) | – | – | – |
| Net cash used in financing activities | | (11,883) | (3,789) | (1,532) | – |
| Net (decrease)/increase in cash, cash equivalents and bank overdrafts | | (512) | (48) | 1 | – |
| Cash, cash equivalents and bank overdrafts at beginning of the year | | 20,133 | 20,402 | – | – |
| Exchange gains/(losses) on cash, cash equivalents and bank overdrafts | | 1,171 | (221) | – | – |
| Cash, cash equivalents and bank overdrafts at end of financial year | 21 | 20,792 | 20,133 | 1 | – |

The notes on pages 34 to 55 are an integral part of these consolidated financial statements

# Notes to the financial statements for the year ended 31 December 2007

**1 General information**

Hilton Food Group plc ("the Company") and its subsidiaries (together "the Group") is a specialist meat packing business supplying major international food retailers in five European countries The Company's subsidiaries are listed in note 29

The Company was incorporated on 16 March 2007 as Law 2461 Limited and changed its name to Hilton Food Group plc (see note 5) and re-registered as a public limited company on 17 April 2007 The Company is incorporated and domiciled in the UK The address of the registered office is 2-8 The Interchange, Latham Road, Huntingdon, Cambridgeshire PE29 6YE The registered number of the Company is 6165540

The Company has its primary listing on the London Stock Exchange and was admitted to the Official List and to trading on 17 May 2007

These consolidated financial statements were approved for issue on 14 April 2008

The Company has taken advantage of the exemption in Section 230 Companies Act 1985 not to publish its individual income statement and related notes Profit for the year dealt with in the income statement of Hilton Food Group plc amounted to £1,557,402 (2006 £nil)

**2 Summary of significant accounting policies**

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below These policies have been consistently applied to all of the years presented, unless otherwise stated

Basis of preparation

The consolidated financial statements of Hilton Food Group plc have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, IFRIC interpretations and the Companies Act 1985 applicable to companies reporting under IFRS
The consolidated financial statements have been prepared on the going concern basis under the historical cost convention The principal accounting policies adopted in the preparation of these financial statements are set out below These policies have been consistently applied to all the years presented, unless otherwise stated

The financial statements are presented in sterling and all values are rounded to the nearest thousand (£'000) except when otherwise indicated

Basis of consolidation

The Group financial statements comprise the financial statements of Hilton Food Group plc ("the Company") and its subsidiaries, together, ("the Group") The financial statements of subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies

A subsidiary is an entity controlled, either directly or indirectly, by the Company, where control is the power to govern the financial and operating policies of the entity so as to obtain benefit from its activities

All inter-company balances and transactions, including unrealised profits arising from inter-group transactions, are eliminated on consolidation

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill

**2 Summary of significant accounting policies** (continued)
International Financial Reporting Standards

*(a) Standards, amendments and interpretations effective in 2007*

IFRS 7, 'Financial instruments Disclosures' and the complementary amendment to IAS 1, 'Presentation of financial statements – Capital disclosures', introduces new disclosures relating to financial instruments and does not have any material impact on the classification and valuation of the Group or Company's financial statements, or the disclosures relating to taxation and trade and other payables

*(b) Standards, amendments and interpretations effective in 2007 but not relevant to the Group or Company's operations*

IFRS 4, 'Insurance contracts'

IFRIC 7, 'Applying the restatement approach under IAS 29, financial reporting in hyper-inflationary economies'

IFRIC 8, "Scope of IFRS 2'

IFRIC 9, 'Reassessment of embedded derivatives'

IFRIC 10, 'Interim financial reporting and impairment'

IFRIC 11, 'IFRS 2 – Group and treasury share transactions'

*(c) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group and Company*

IAS 23 (amendment), 'Borrowing costs' (effective from 1 January 2009) This is subject to EU endorsement It requires an entity to capitalise borrowing costs directly attributable to an acquisition, construction or production of a qualifying asset as part of the cost of that asset
The Group and Company currently have no such qualifying assets

IFRS 8, 'Operating segments' (effective from 1 January 2009) This is subject to EU endorsement It requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes The expected impact is being assessed in detail by management in advance of future implementation

IFRS 2 (amendment), 'Share-based payment' (effective 1 January 2009)

IFRS 3 (revised), 'Business combinations' (effective from 1 July 2009)

*(d) Standards, amendments and interpretations to existing standards that are not yet effective and not relevant for the Group and Company's operations*

IAS 27 (revised), 'Consolidated and separate financial statements' (effective from 1 July 2009)

IAS 32 (amendment), 'Financial Instruments presentation' and IAS 1 (amendment), 'Presentation of financial statements' (effective from 1 January 2009)

IFRIC 12, 'Service concession arrangements' (effective from 1 January 2008)

IFRIC 13, 'Customer loyalty programmes' (effective from 1 July 2008)

IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction' (effective 1 January 2008)

# Notes to the financial statements for the year ended 31 December 2007

continued

**2 Summary of significant accounting policies** (continued)
Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Group's activities Revenue is shown net of value-added tax, returns, rebates and discounts after eliminating sales within the Group

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Group and the criteria set out in the following paragraph have been met

The Group sells meat in the wholesale market. Sales of goods are recognised when a Group entity has delivered products to the customer and there is no unfulfilled obligation that could affect the customer's acceptance of the products Delivery does not occur until the products have been shipped to the location specified by the customer, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied

Segment reporting

A business segment is a distinguishable component of the Group that is engaged either in providing products or services and a geographical segment is a distinguishable component of the Group that is engaged in providing products or services within a particular economic environment, which is subject to risks and rewards that are different from those other segments

Foreign currency translation

*(a) Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency') The consolidated financial statements are presented in Sterling, which is the Company's functional and presentation currency

*(b) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement

*(c) Group companies*

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of the balance sheet,
- Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions), and
- All resulting currency translation differences are recognised as a separate component of equity in other reserves

When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate

**2 Summary of significant accounting policies** (continued)
Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and any impairment in value

Depreciation is calculated using the straight-line method to allocate the cost of property, plant and equipment to their residual values over their estimated useful lives, as follows

| | Annual rate |
|---|---|
| Buildings – Held under finance lease | 5% |
| Buildings – Leasehold improvements | 10% |
| Plant and machinery | 14% – 25% |
| Fixtures and fittings | 14% – 25% |
| Motor vehicles | 25% |

Land is not depreciated

The residual value and useful lives of property, plant and equipment are reviewed, and adjusted if appropriate, at each balance sheet date An asset's carrying value is written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount These impairment losses are recognised in the income statement Following the recognition of an impairment loss, the depreciation charge applicable to the asset is adjusted prospectively in order to systematically allocate the revised carrying amount, net of any residual value, over the remaining useful life

Intangible assets

*(a) Goodwill*

Goodwill on acquisitions of subsidiaries and purchase of minority interests is included in 'intangible assets', tested annually for impairment and carried at cost less accumulated impairment losses Goodwill represents the excess of the cost of the acquisition or purchase over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary or minority interest at the date of acquisition

*(b) Computer software*

Acquired software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software These costs are amortised on a straight-line basis over their useful economic lives (three to seven years)

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred

*(c) Product licences*

The costs of acquiring product licences are capitalised and amortised on a straight-line basis over their expected useful economic lives of five to 10 years

# Notes to the financial statements for the year ended 31 December 2007

continued

**2 Summary of significant accounting policies** (continued)
Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount The recoverable amount is the higher of an asset's fair value less costs to sell, and value in use For the purposes of assessing impairment, assets are Grouped by cash generating unit Non-financial assets other than goodwill that have suffered impairment are reviewed for possible reversal of the impairment at each reporting date

Inventories

Inventories are stated at the lower of cost and net realisable value

Cost is either determined on a first in first out (FIFO) basis or by the 'retail method' depending on the subsidiary The 'retail method' generally computes cost on the basis of selling price less the appropriate trading margin

Cost comprises material costs, direct wages and other direct production costs together with a proportion of production overheads relevant to the stage of completion of work in progress and finished goods It excludes borrowing costs

Net realisable value represents the estimated selling price less costs to completion and appropriate selling and distribution costs

Provision is made, where necessary, for slow moving, obsolete and defective inventories

Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within selling and marketing costs When a trade and other receivable is uncollectible, it is written off against the allowance account for trade receivables Subsequent recoveries of amounts previously written-off are credited against selling and marketing costs in the income statement

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less Bank overdrafts are shown on the balance sheet within borrowings in current liabilities

Share capital

Ordinary shares are classified as equity

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds

Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method

Borrowings

All borrowings are initially recorded at the fair value of the consideration received net of transaction costs associated with the borrowing Borrowings are subsequently stated at amortised cost, any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method Borrowings costs are recognised as an expense in the period in which they are incurred

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date

## 2 Summary of significant accounting policies (continued)

Leases

Tangible fixed assets, acquired under a lease which transfers substantially all of the risks and rewards of ownership to the Group, are capitalised as fixed assets at their fair value and are depreciated over the shorter of their useful lives and their lease term with any impairment being recognised in accumulated depreciation Amounts payable under such leases (finance leases), net of transaction costs, are classified as current and non-current liabilities based on the lease payment dates Lease payments are treated as consisting of capital and interest elements and the interest is charged to the income statement in proportion to the reducing capital element outstanding

Leases where the lessor retains substantially all of the risks and rewards of ownership are classified as operating leases The annual rentals under operating leases are charged to the income statement as incurred

Current and deferred income tax

Current income tax charge represents the expected tax payable or recoverable on the taxable profit for the year using tax laws enacted or substantively enacted at the balance sheet date

Deferred income tax is provided in full, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised

Deferred income tax is provided on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future

Pensions and other post-employment benefits

The Group operates defined contribution schemes for certain employees in the UK, the Republic of Ireland and the Netherlands and contributes to a state administered money purchase scheme in Poland The Group pays contributions to publicly or privately administered pension insurance plans and has no further payment obligations once the contributions have been made The contributions are recognised as an employee benefit expense when they are due

In the Netherlands and Sweden the Group contributes to industry-wide defined benefit schemes for its employees These schemes are national industry-wide schemes and they will not provide contributing companies with sufficient information to allow each Company to ascertain its share of the schemes' assets and liabilities Accordingly the Group has accounted for these schemes as defined contribution schemes The contributions are recognised as an employee benefit expense when they are due

Grants

Grants are recognised at their fair value when there is a reasonable assurance that the grant will be received and all attaching conditions have been complied with

Capital grants received and receivable by the Group are credited to deferred income and are amortised to the income statement on a straight-line basis over the expected useful lives of the assets to which they relate

Revenue grants are recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate

Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by Company's shareholders

Significant items

Significant items are those which are separately disclosed by virtue of their size or incidence to enable a full understanding of the Group's financial performance Transactions which are significant items in the current year relate to restructuring and flotation costs (note 10)

# Notes to the financial statements for the year ended 31 December 2007

continued

### 3 Financial risk management

Financial risk factors

The Group's activities expose it to a variety of financial risks market risk (including currency risk, cash flow interest rate risk and price risk), credit risk and liquidity risk The Group has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the Group by monitoring the foregoing risks

*(a) Market risk*

(i) Price risk

The Group is not exposed to equity securities price risk as it holds no listed or other equity investments

(ii) Foreign exchange risk

The Group is exposed to foreign exchange risk in the normal course of business in its overseas operations, principally on transactions in Euros, Swedish Krona and the Polish Zloty The Group regularly monitors foreign exchange exposure and to date has deemed it not appropriate to hedge its foreign exchange position

(iii) Cash flow interest rate risk

The Group's interest rate risk arises from long-term borrowings Borrowings issued at variable rates expose the Group to cash flow interest rate risk The Group seeks to manage exposure to interest rate risk through interest rate caps over the majority of its long-term borrowings

(iv) Sensitivity analysis

| | 2007 | | 2006 | |
|---|---|---|---|---|
| Group | Income statement £'000 | Equity £ 000 | Income statement £ 000 | Equity £ 000 |
| Effect of a change in Group-wide interest rates by 0 5% | +167 | +167 | +31 | +31 |
| | −142 | −142 | −31 | −31 |
| Effect of a change in exchange rates to the GBP £ by 10% | +823 | +1,229 | +720 | +1,492 |
| | −748 | −1,117 | −665 | −1,269 |

*(b) Credit risk*

The Group is exposed to credit risk in respect of credit exposures to wholesale customers The Group has implemented policies that require appropriate credit checks on potential customers before sales are made The Group's maximum exposure to credit risk from wholesale customers is £46 4m (2006 £37 8m) as stated in note 20

*(c) Liquidity risk*

The Group has significant cash and cash equivalents and maintains a mix of long-term and short-term debt finance, accordingly the Group's exposure to liquidity risk is not considered significant The Board regularly reviews its banking facilities and cash flow forecasts The maturity of the Group's financial liabilities is stated in note 22

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt

The Group monitors capital on the basis of the gearing ratio This ratio is calculated as net debt divided by EBITDA. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown on the consolidated balance sheet) less cash and cash equivalents EBITDA is calculated as operating profit before significant non-recurring items, interest, tax, depreciation and amortisation

Fair value estimation

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group

**4 Critical accounting estimates and judgements**

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances

During the year ended 31 December 2007 there were no critical accounting estimates in relation to the application of the Group's accounting policies The matters for which accounting estimates were required in the prior year financial statements (income taxes and impairment of assets) have been resolved and managed sufficiently such that they no longer remain critical to the Group During the years ended 31 December 2007 and 31 December 2006 there were no critical accounting judgements in relation to the application of the Group's accounting policies

**5 Reverse acquisition**

On 30 March 2007 the Company became the holding Company of Hilton Foods Limited Under IFRS 3, Business Combinations, this Group reconstruction has been accounted for as a reverse acquisition Although this consolidated financial information has been issued in the name of the legal parent, the Company, it represents in substance a continuation of the financial information of the legal subsidiary Hilton Foods Limited The following accounting treatment has been applied in respect of the reverse acquisition

a) the assets and liabilities of the legal subsidiary, Hilton Foods Limited, are recognised and measured in the consolidated financial information at the pre-combination carrying amounts, without restatement to fair value,

b) the retained earnings and other equity balances of Hilton Foods Limited immediately before the business combination, and the results of the period from 1 January 2007 to the date of the business combination are those of Hilton Foods Limited as the Company did not trade prior to the transaction However, the equity structure appearing in the consolidated financial information reflects the equity structure of the legal parent, Hilton Food Group plc, including the equity instruments issued to effect the business combination, and

c) comparative numbers presented in the consolidated financial information are those reported in the consolidated financial information of the legal subsidiary, Hilton Foods Limited, for the year ended 31 December 2006

The Company had no significant assets or liabilities immediately prior to the time of the reverse acquisition As part of the reverse acquisition, 69,000,000 new 10p shares were issued to the members of Hilton Foods Limited together with a cash payment of £25m In the books of the legal parent, Hilton Food Group plc, a merger reserve of £70 1m has arisen as a premium on the shares issued On consolidation this merger reserve has formed part of the reverse acquisition reserve amounting to £31 7m

**6 Segmental information**

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments

Based on an analysis of risks and returns, the Directors consider that the Group has only one identifiable business segment, wholesaling of meat. The Directors consider that no further segmentation is appropriate, as all of the Group's operations are subject to similar risks and returns and exhibit similar long-term financial performance

Based on an analysis of risks and returns, the Directors consider that the Group has two identifiable geographical segments The main geographical area in which the Group's operations are carried out is Western Europe The other geographical area that the Group's operations are carried out in does not meet the definition of a reportable segment in IAS 14 and therefore the revenues, results, assets and liabilities arising from the operations carried out in this geographical area have been included in 'Other'

Consequently the Group's primary reporting format is by geographical segmentation Secondary format disclosures are not appropriate The analyses in the tables below are based on the location of customers

# Notes to the financial statements for the year ended 31 December 2007

continued

**6 Segmental information** (continued)

The segment results for the year ended 31 December 2007 are as follows

| | Western Europe £'000 | Other £'000 | Unallocated £'000 | 2007 Total £'000 | Western Europe £'000 | Other £'000 | 2006 Total £'000 |
|---|---|---|---|---|---|---|---|
| Total segment revenue | 551,836 | 25,898 | – | 577,734 | 517,915 | 8,748 | 526,663 |
| Operating profit/segment result | 16,781 | 656 | (1,780) | 15,657 | 15,411 | 288 | 15,699 |
| Finance income | | | | 1,433 | | | 824 |
| Finance costs | | | | (3,416) | | | (1,038) |
| Finance costs – net | | | | (1,983) | | | (214) |
| Profit before income tax | | | | 13,674 | | | 15,485 |
| Income tax expense | | | | (4,158) | | | (4,824) |
| Profit for the year | | | | 9,516 | | | 10,661 |

Other segment items included in the income statement for the year ended 31 December 2007 are as follows

| | Western Europe £'000 | Other £'00 | 2007 Total £ 000 | Western Europe £'000 | Other £'000 | 2006 Total £ 000 |
|---|---|---|---|---|---|---|
| Depreciation | 8,802 | 828 | 9,630 | 7,731 | 289 | 8,020 |
| Amortisation | 1,178 | 186 | 1,364 | 1,056 | 73 | 1,129 |

The segment assets and liabilities at 31 December 2007 and capital expenditure for the year then ended are as follows

| | Western Europe £ 000 | Other £ 000 | Unallocated £'000 | 2007 Total £ 000 | Western Europe £ 000 | Other £ 000 | Unallocated £ 000 | 2006 Total £ 000 |
|---|---|---|---|---|---|---|---|---|
| Total assets | 116,273 | 11,439 | 1,273 | 128,985 | 108,701 | 11,711 | 1,219 | 121,631 |
| Total liabilities | (72,067) | (7,053) | (60,378) | (139,498) | (68,626) | (2,964) | (19,204) | (90,794) |
| Capital expenditure | 10,410 | 745 | – | 11,155 | 15,460 | 5,658 | – | 21,118 |

Segment assets consist primarily of property, plant and equipment, intangible assets, inventories, trade and other receivables and cash and cash equivalents Unallocated assets comprise deferred income tax assets

Segment liabilities comprise operating liabilities Unallocated liabilities comprise deferred income tax liabilities, current income tax liabilities and borrowings

## 7 Auditor's remuneration

Services provided by the Group's auditor and its associates

During the year the Group (including its overseas subsidiaries) obtained the following services from the Company's auditor and its associates

| Group | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Fees payable to the Company's auditor for the audit of the parent Company and consolidated accounts | 110 | 50 |
| Fees payable to the Company's auditor and its associates for other services | | |
| – The audit of the Company's subsidiaries pursuant to legislation | 94 | 78 |
| – Other services pursuant to legislation | 57 | – |
| – Services relating to taxation | 39 | 85 |
| – Services relating to restructuring and flotation | 362 | – |
| – All other services | 32 | 130 |
| Total fees payable to the Company's auditor and its associates | 694 | 343 |
| Fees payable to other auditors in respect of services provided to subsidiary undertakings | 54 | 46 |

## 8 Expenses by nature

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Changes in inventories of finished goods and work in progress | 118 | (445) |
| Raw materials and consumables used | 461,726 | 422,028 |
| Employee benefit expense (note 9) | 36,209 | 32,832 |
| Depreciation, amortisation and impairment charges – owned assets | 10,810 | 8,989 |
| Depreciation, amortisation and impairment charges – leased assets | 184 | 160 |
| Release of deferred income in respect of government grants | (109) | (109) |
| Repairs and maintenance expenditure on property, plant and equipment | 7,827 | 6,970 |
| Trade receivables – impairment/(reversal of impairment) | 203 | (197) |
| Hire of plant and machinery | 595 | 618 |
| Transportation expenses | 5,758 | 5,331 |
| Operating lease payments | 3,879 | 3,592 |
| Foreign exchange (gains)/losses | (338) | 121 |
| Other expenses | 33,435 | 31,074 |
| Total cost of sales, distribution costs and administrative expenses | 560,297 | 510,964 |

# Notes to the financial statements for the year ended 31 December 2007

continued

**9 Employee benefit expense**

| Group | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Staff costs during the year | | |
| Wages and salaries | 29,674 | 27,218 |
| Social security costs | 5,699 | 4,869 |
| Pension costs – defined contribution plans | 836 | 745 |
| | 36,209 | 32,832 |

| | Number | Number |
|---|---|---|
| Average number of persons employed (including executive Directors) during the year by activity | | |
| Production | 1,104 | 1,027 |
| Administration | 283 | 247 |
| | 1,387 | 1,274 |

| | Directors' emoluments | | Key management compensation (including Directors) | |
|---|---|---|---|---|
| Group | 2007 £'000 | 2006 £'000 | 2007 £'000 | 2006 £'000 |
| Salaries and short-term employee benefits | 1,425 | 1,434 | 2,391 | 1,673 |
| Pension costs – defined contribution plans | 105 | 43 | 198 | 139 |
| | 1,530 | 1,477 | 2,589 | 1,812 |

Further details of Directors' emoluments and share interests are given in the Directors' remuneration report

There are no other employees of the Company other than the Directors Employee expense of the Company amounted to £nil (2006 £nil)

**10 Restructuring and flotation costs**
During the year to 31 December 2007 costs of £1 8m were incurred in relation to the restructuring of the Group and admission of the Company to the Official List

## 11 Finance income and costs

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Finance income | | |
| Interest income on short-term bank deposits | 837 | 674 |
| Exchange gains on foreign currency borrowings | 160 | 150 |
| Interest on income taxes | 436 | – |
| Finance income | 1,433 | 824 |
| Interest expense | | |
| Bank borrowings | (3,131) | (334) |
| Finance leases | (198) | (186) |
| Interest on income taxes | – | (518) |
| Other interest expense | (87) | – |
| Finance costs | (3,416) | (1,038) |
| Finance costs – net | (1,983) | (214) |

## 12 Income tax expense

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Current income tax | | |
| Current year | 4,028 | 4,424 |
| Adjustment to previous years | (37) | 83 |
| | 3,991 | 4,507 |
| Deferred income tax | | |
| Current year | 185 | 317 |
| Adjustment to previous years | (18) | – |
| | 167 | 317 |
| Income tax expense | 4,158 | 4,824 |

The tax on the Group's profit before income tax differs from the amount that would arise using the standard rate of UK Corporation Tax of 30% (2006 30%) applied to profits of the consolidated entities as follows

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Profit before income tax | 13,674 | 15,485 |
| Tax calculated at the standard rate of UK Corporation Tax (30%) (2006 30%) | 4,102 | 4,646 |
| Expenses not deductible for tax purposes | 265 | 588 |
| Adjustments to tax in respect of previous years | (55) | 83 |
| Profits taxed at rates other than 30% | (154) | (493) |
| Income tax expense | 4,158 | 4,824 |

# Notes to the financial statements for the year ended 31 December 2007

continued

### 13 Earnings per share
Basic and diluted

Basic and diluted earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year

| | 2007 | 2006 |
|---|---|---|
| Profit attributable to equity holders of the Company (£'000) | **8,820** | 9,986 |
| Weighted average number of ordinary shares in issue (thousands) | **69,657** | 69,657 |
| Basic and diluted earnings per share (pence) | **12 7** | 14 3 |
| Basic and diluted earnings per share before restructuring and flotation costs of £1,780,000 less tax relief of £150,000 (2006 £nil) (pence) | **15 0** | 14 3 |

### 14 Dividends

| | 2007 £ 000 | 2006 £ 000 |
|---|---|---|
| Dividends paid on ordinary shares 35 5p per ordinary share (2006 6 0p) | **24,700** | 4,200 |
| Interim dividend paid 2 2p per ordinary share | **1,532** | – |
| Total dividends paid | **26,232** | 4,200 |

A dividend of £24 7m was paid during the year to shareholders as part of the restructuring prior to Listing The Directors propose a final dividend of 5 2p per share payable on 11 July 2008 to shareholders who are on the register at 13 July 2008 This final dividend, amounting to £3 6m has not been recognised as a liability in these consolidated financial statements

### 15 Property plant and equipment

| Group | Land and buildings (including leasehold improvement) £ 000 | Plant and machinery £ 000 | Fixtures and fittings £ 000 | Motor vehicles £'000 | Total £'000 |
|---|---|---|---|---|---|
| Cost | | | | | |
| At 1 January 2006 | 11,082 | 47,939 | 6,114 | 184 | 65,319 |
| Exchange adjustments | (109) | (124) | 54 | – | (179) |
| Additions | 9,633 | 9,201 | 1,203 | 247 | 20,284 |
| Disposals | (256) | (861) | (1,304) | (145) | (2,566) |
| At 31 December 2006 | 20,350 | 56,155 | 6,067 | 286 | 82,858 |
| Accumulated depreciation | | | | | |
| At 1 January 2006 | 3,975 | 25,378 | 2,334 | 74 | 31,761 |
| Exchange adjustments | (18) | (182) | 8 | – | (192) |
| Charge for year | 865 | 6,215 | 863 | 77 | 8,020 |
| Disposals | – | (245) | – | (62) | (307) |
| At 31 December 2006 | 4,822 | 31,166 | 3,205 | 89 | 39,282 |
| Net book amount | | | | | |
| At 31 December 2006 | 15,528 | 24,989 | 2,862 | 197 | 43,576 |

## 15 Property plant and equipment (continued)

| Cost | Land and buildings (including leasehold improvement) £ 000 | Plant and machinery £'000 | Fixtures and fittings £'000 | Motor vehicles £ 000 | Total £'000 |
|---|---|---|---|---|---|
| At 1 January 2007 | 20,350 | 56,155 | 6,067 | 286 | 82,858 |
| Exchange adjustments | 561 | 3,320 | 263 | 10 | 4,154 |
| Additions | 2,641 | 6,631 | 1,241 | 151 | 10,664 |
| Disposals | (4,000) | (431) | (75) | (78) | (4,584) |
| Transfer | (2,131) | 2,105 | 26 | – | – |
| At 31 December 2007 | 17,421 | 67,780 | 7,522 | 369 | 93,092 |
| Accumulated depreciation | | | | | |
| At 1 January 2007 | 4,822 | 31,166 | 3,205 | 89 | 39,282 |
| Exchange adjustments | 139 | 1,870 | 146 | 3 | 2,158 |
| Charge for year | 1,021 | 7,406 | 1,110 | 93 | 9,630 |
| Disposals | – | (184) | (28) | (52) | (264) |
| Transfer | 3 | (3) | – | – | – |
| At 31 December 2007 | 5,985 | 40,255 | 4,433 | 133 | 50,806 |
| Net book amount | | | | | |
| At 31 December 2007 | 11,436 | 27,525 | 3,089 | 236 | 42,286 |

Property, plant and equipment include the following amounts where the Group is a lessee under a finance lease

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Cost – capitalised finance leases | 3,188 | 2,845 |
| Accumulated depreciation | (667) | (394) |
| Net book amount | 2,521 | 2,451 |

Included in assets held under finance leases are land and buildings with a net book amount of £2,437,000 (2006 £2,405,000) and plant and machinery with a net book amount of £84,000 (2006 £46,000)

Land and buildings are held under short leaseholds

Details of bank borrowings secured on assets of the Group are given in note 22

# Notes to the financial statements for the year ended 31 December 2007

continued

## 16 Intangible assets

| Group | Product licences £'000 | Software costs £'000 | Goodwill £'000 | Total £'000 |
|---|---|---|---|---|
| Cost | | | | |
| At 1 January 2006 | 6,270 | 1,289 | – | 7,559 |
| Exchange adjustments | (121) | 26 | – | (95) |
| Additions | – | 834 | | 834 |
| At 31 December 2006 | 6,149 | 2,149 | – | 8,298 |
| Accumulated amortisation | | | | |
| At 1 January 2006 | 3,144 | 144 | – | 3,288 |
| Exchange adjustments | (71) | 5 | – | (66) |
| Charge for year | 868 | 261 | – | 1,129 |
| At 31 December 2006 | 3,941 | 410 | – | 4,351 |
| Net book amount | | | | |
| At 31 December 2006 | 2,208 | 1,739 | – | 3,947 |
| Cost | | | | |
| At 1 January 2007 | 6,149 | 2,149 | – | 8,298 |
| Exchange adjustments | 584 | 196 | – | 780 |
| Additions | – | 302 | 836 | 1,138 |
| At 31 December 2007 | 6,733 | 2,647 | 836 | 10,216 |
| Accumulated amortisation | | | | |
| At 1 January 2007 | 3,941 | 410 | – | 4,351 |
| Exchange adjustments | 451 | 63 | – | 514 |
| Charge for year | 990 | 374 | – | 1,364 |
| At 31 December 2007 | 5,382 | 847 | – | 6,229 |
| Net book amount | | | | |
| At 31 December 2007 | 1,351 | 1,800 | 836 | 3,987 |

The net book amount of goodwill relates entirely to the acquisition of the remaining 2 5% shareholding in Hilton Food Group (Europe) Limited (note 17), the cash generating unit (CGU) An impairment review of goodwill and other assets has been carried out in accordance with IAS 36, 'Impairment of assets'

The recoverable amount of the CGU is determined on value-in-use calculations These calculations use pre-tax cash flow projections covering a five year period The growth rate used is not more than 10%, being representative of the average growth rate achieved by the Group in recent years The rate used to discount the future cash flows is the Group's internal hurdle rate for capital projects of 11% This approximates to applying a pre-tax discount rate to pre-tax cash flows

## 17 Investments in subsidiary undertakings

Company

| Shares in Group undertakings | 2007 £ 000 | 2006 £ 000 |
|---|---|---|
| At 1 January | – | – |
| Additions in year | | |
| Reverse acquisition of Hilton Foods Limited – at fair value | 102,000 | – |
| Acquisition of minority shareholding in Hilton Food Group (Europe) Limited – at fair value | 985 | – |
| At 31 December | 102,985 | – |

Details of subsidiary undertakings are shown in note 29

Details of the reverse acquisition of Hilton Foods Limited are shown in note 5

Business combination

On 24 April 2007, the Group acquired 2 5% of the share capital of Hilton Food Group (Europe) Limited in consideration for 656,667 ordinary shares in the Company at a value of £985,000 bringing its total shareholding to 100% Details of net assets acquired and goodwill are as follows

| | £ 000 |
|---|---|
| Purchase consideration – fair value of equity shares issued | 985 |
| Existing minority interest | 149 |
| Goodwill (note 16) | 836 |

## 18 Financial instruments by category

The accounting policies for financial instruments have been applied to the line items below

| Group<br>Assets as per balance sheet | Loans and receivables<br>2007 £ 000 | <br>2006 £ 000 |
|---|---|---|
| Trade and other receivables | 50,993 | 41,037 |
| Cash and cash equivalents | 20,792 | 22,327 |
| | 71,785 | 63,364 |

| Group<br>Liabilities as per balance sheet | Other financial liabilities<br>2007 £'000 | <br>2006 £ 000 |
|---|---|---|
| Borrowings | 56,984 | 16,261 |

# Notes to the financial statements for the year ended 31 December 2007

continued

## 19 Inventories

| Group | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Raw materials and consumables | 7,576 | 7,314 |
| Finished goods and goods for resale | 2,078 | 2,211 |
| | 9,654 | 9,525 |

The cost of inventories recognised as an expense and included in cost of sales amounted to £461,844,000 (2006 £421,583,000)

The Group reversed £164,000 of a previous inventory write-down in the year ended 31 December 2007 (2006 £110,000) The Group has sold all the goods that were written-down to a third party The amount reversed has been included in cost of sales in the income statements

## 20 Trade and other receivables

| Group | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Trade receivables | 46,589 | 37,883 |
| Less provision for impairment of receivables | (197) | (65) |
| Trade receivables – net | 46,392 | 37,818 |
| Other receivables | 1,724 | 1,800 |
| Prepayments | 2,877 | 1,419 |
| | 50,993 | 41,037 |

The carrying amount of the Group's trade and other receivables are denominated in the following currencies

| Currency | 2007 £'000 | 2006 £'000 |
|---|---|---|
| UK Pound | 8,566 | 6,368 |
| Swedish Krona | 14,320 | 11,928 |
| Euro | 25,466 | 18,550 |
| Polish Zloty | 2,641 | 4,191 |
| | 50,993 | 41,037 |

The fair values of trade receivables, other receivables and prepayments are the same as their carrying value The maximum exposure to credit risk at 31 December 2007 is the fair value of each class of receivable mentioned above

Trade receivables impaired and the amount of the impairment provision as at 31 December 2007 was £197,000 (2006 £65,000) The individually impaired receivables mainly relate to invoices which are in dispute It was assessed that a portion of the receivables is expected to be recovered The trade receivables that were impaired were all overdue by more than six months There were no other trade receivables which were overdue The other classes within trade and other receivables do not contain impaired assets The trade receivables which are not impaired or overdue are all less than 30 days old

Movements on the provision for impairment of trade receivables are as follows

| Group | 2007 £'000 | 2006 £'000 |
|---|---|---|
| At 1 January | 65 | 262 |
| Provision for receivables impairment | 203 | – |
| Receivables written-off during the year as uncollectable | (86) | – |
| Unused amounts reversed | – | (197) |
| Exchange differences | 15 | – |
| At 31 December | 197 | 65 |

## 21 Cash and cash equivalents

| | Group | | Company | |
|---|---|---|---|---|
| | 2007 £'000 | 2006 £'000 | 2007 £'000 | 2006 £ 000 |
| Cash at bank and on hand | 20,792 | 22,327 | 1 | – |

Cash, cash equivalents and bank overdrafts include the following for the purposes of the cash flow statement.

| | Group | | Company | |
|---|---|---|---|---|
| | 2007 £ 000 | 2006 £ 000 | 2007 £ 000 | 2006 £ 000 |
| Cash at bank and on hand | 20,792 | 22,327 | 1 | – |
| Bank overdrafts (note 22) | – | (2,194) | – | – |
| | 20,792 | 20,133 | 1 | – |

## 22 Borrowings

| Group | 2007 £'000 | 2006 £ 000 |
|---|---|---|
| Current | | |
| Bank overdrafts | – | 2,194 |
| Bank borrowings | 6,577 | 3,799 |
| Finance lease liabilities | 105 | 72 |
| | 6,682 | 6,065 |
| Non-current | | |
| Bank borrowings | 47,445 | 7,524 |
| Finance lease liabilities | 2,857 | 2,672 |
| | 50,302 | 10,196 |
| Total borrowings | 56,984 | 16,261 |

Due to the frequent re-pricing dates of the Group's loans, the fair value of current and non-current borrowings is approximate to their carrying amount

The carrying amounts of the Group's borrowings are denominated in the following currencies

| Currency | 2007 £ 000 | 2006 £ 000 |
|---|---|---|
| UK Pound | 46,935 | 50 |
| Swedish Krona | 3,642 | 7,845 |
| Euro | 6,407 | 8,366 |
| | 56,984 | 16,261 |

The Group borrowed £47 5m from Ulster Bank during the year to fund Group reorganisation and is repayable in quarterly instalments by 28 February 2013 Interest is charged at LIBOR plus 0 75% to 1 25% subject to interest rate caps over £30m of borrowings where LIBOR is capped at 6 5% Other bank borrowings are repayable by 2010 to 2013 with interest charged at bank base rate plus 0 7% to 0 75%

Bank borrowings and overdrafts totalling £54,022,000 (2006 £13,517,000) are secured by fixed and floating charges over the assets of the individual Group borrowers and through joint and several guarantees from each active Group undertaking

# Notes to the financial statements for the year ended 31 December 2007

continued

**22 Borrowings** (continued)

The maturity profile of Group's borrowings is as follows

| Group | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Less than one year | 6,682 | 6,065 |
| Between one and two years | 7,014 | 2,769 |
| Between two and five years | 14,815 | 5,026 |
| Later than five years | 28,473 | 2,401 |
| | 56,984 | 16,261 |

The minimum lease payments and present value of finance lease liabilities is as follows

| | Minimum lease payments | | Present value | |
|---|---|---|---|---|
| Group | 2007 £'000 | 2006 £'000 | 2007 £'000 | 2006 £'000 |
| No later than one year | 305 | 266 | 105 | 72 |
| Later than one year and no later than five years | 1,128 | 1,009 | 362 | 272 |
| Later than five years | 3,867 | 3,793 | 2,495 | 2,400 |
| | 5,300 | 5,068 | 2,962 | 2,744 |
| Future finance charges on finance leases | (2,338) | (2,324) | – | – |
| Present value of finance lease liabilities | 2,962 | 2,744 | 2,962 | 2,744 |

Lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default

The fair value of the Group's finance lease liabilities is £3,700,000 (2006 £3,547,000) The fair values are based on cash flows discounted using a rate based on the borrowing rate of 4% (2006 3 75%)

**23 Trade and other payables**

| | Goup | | Company | |
|---|---|---|---|---|
| | 2007 £'000 | 2006 £'000 | 2007 £'000 | 2006 £'000 |
| Trade payables | 54,545 | 43,171 | – | – |
| Amounts owed to Group undertakings | – | – | 25,380 | – |
| Amounts owed to related parties (see note 30) | 11,079 | 11,245 | – | – |
| Social security and other taxes | 406 | 1,346 | – | – |
| Deferred consideration | 389 | 541 | – | – |
| Accruals and deferred income | 12,437 | 13,437 | – | – |
| | 78,856 | 69,740 | 25,380 | – |

## 24 Other non-current liabilities

| Group | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Deferred consideration | 220 | 990 |
| Accruals and deferred income | 44 | 860 |
| | 264 | 1,850 |

## 25 Deferred income tax

The movement in deferred income tax assets and liabilities during the year is as follows

| Group | Accelerated capital allowances £'000 | Other timing differences £'000 | Deferred income tax assets total £'000 | Deferred income tax liabilities: accelerated capital allowances £'000 |
|---|---|---|---|---|
| At 1 January 2007 | 1,219 | – | 1,219 | (1,300) |
| Exchange differences | – | – | – | (59) |
| Income statement charge | (38) | 92 | 54 | (221) |
| At 31 December 2007 | 1,181 | 92 | 1,273 | (1,580) |

Deferred income tax liabilities of £1,096,000 (2006 £1,021,000) have not been recognised on the unremitted earnings of its overseas subsidiaries As the earnings are continually reinvested by the Group, no tax is expected to be payable on them in the foreseeable future

## 26 Called up share capital

| | Group | | Company | |
|---|---|---|---|---|
| | 2007 £'000 | 2006 £'000 | 2007 £'000 | 2006 £'000 |
| Authorised | £ | | | |
| 500,000 'A' ordinary shares of £1 each | – | 500 | – | – |
| 500,000 'B' ordinary shares of £1 each | – | 500 | – | – |
| 100,000,000 ordinary shares of 10 pence each | 10,000 | – | 10,000 | – |
| | 10,000 | 1,000 | 10,000 | – |
| Allotted and fully paid | | | | |
| 100,000 'A' ordinary shares of £1 each | – | 100 | – | – |
| 100,000 'B' ordinary shares of £1 each | – | 100 | – | – |
| 69,656,667 ordinary shares of 10p each | 6,966 | – | 6,966 | – |
| | 6,966 | 200 | 6,966 | – |

The Company issued 69,000,000 shares to the members of Hilton Foods Limited as part of the reverse acquisition (see note 5)

The Company issued 656,667 shares in consideration for the acquisition of a 2 5% stake in Hilton Food Group (Europe) Limited (see note 17)

All ordinary shares of 10p each have equal rights in respect of voting, receipt of dividends, and repayment of capital

# Notes to the financial statements for the year ended 31 December 2007

continued

## 27 Cash generated from operations

| Group | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Profit before income tax | 13,674 | 15,485 |
| Adjustments for | | |
| – Depreciation | 9,630 | 8,020 |
| – Amortisation of intangible assets | 1,364 | 1,129 |
| – Loss on disposal of property, plant and equipment | 36 | 31 |
| – Finance costs – net | 1,983 | 214 |
| - Amortisation of government grants | (104) | (109) |
| Changes in working capital | | |
| – Inventories | 442 | (2,011) |
| – Trade and other receivables | (5,490) | (7,881) |
| – Prepaid expenses | (1,295) | (443) |
| – Trade and other payables | 4,914 | 4,227 |
| – Accrued expenses | (1,563) | 7,819 |
| Cash generated from operations | 23,591 | 26,481 |

## 28 Commitments

*(a) Capital commitments*

Capital expenditure contracted for at the balance sheet date but not yet incurred as follows

| | Group | | Company | |
|---|---|---|---|---|
| | 2007 £ 000 | 2006 £ 000 | 2007 £ 000 | 2006 £ 000 |
| Authorised and contracted for | 472 | 3,500 | – | – |

*(b) Operating lease commitments*

The Group leases various properties under non-cancellable operating lease arrangements

The future aggregate minimum lease payments under non-cancellable operating leases are as follows

| | Land and buildings | | Plant and equipment | |
|---|---|---|---|---|
| Group | 2007 £'000 | 2006 £ 000 | 2007 £ 000 | 2006 £'000 |
| No later than one year | 4,185 | 3,473 | 525 | 354 |
| Later than one year and no later than five years | 11,265 | 11,044 | 1,196 | 942 |
| Later than five years | 8,627 | 8,563 | 32 | 300 |
| | 24,077 | 23,080 | 1,753 | 1,596 |

## 29 Subsidiary undertakings

The subsidiary undertakings of the Group at 31 December 2007 were

| Subsidiary undertakings | Country of incorporation or registration | Nature of business | Proportion of shares held |
|---|---|---|---|
| Hilton Meats (Retail) Limited | Northern Ireland | Specialist meat packing | 100% |
| Hilton Meats Zaandam BV | The Netherlands | Specialist meat packing | 80% |
| Hilton Foods (Ireland) Limited | Republic of Ireland | Specialist meat packing | 100% |
| HFG (Sverige) AB | Sweden | Specialist meat packing | 100% |
| Hilton Foods Limited Sp zoo | Poland | Specialist meat packing | 100% |
| Hilton Foods Limited | Northern Ireland | Holding Company | 100% |
| Hilton Meats Holland Limited | Northern Ireland | Holding Company | 80% |
| Hilton Food Group (Europe) Limited | Northern Ireland | Holding Company | 100% |
| Hilton Food com Limited | Northern Ireland | Dormant | 100% |

All undertakings prepare accounts to 31 December and are included in the Company's consolidated financial statements

The Company's voting rights in its subsidiary undertakings are the same as its effective interest in its subsidiary undertakings

## 30 Related party transactions and ultimate controlling party

The Directors do not consider there to be one ultimate controlling party

Ultimate controlling parties of the Group prior to flotation were also the shareholders of Heffer Investments Limited, Hilton Meats (International) Limited and Foyle Food Group Limited Heffer Investments Limited, Romford Wholesale Meats Limited and RWM Dorset Limited were related being part of the same group

The companies noted below are all deemed to be related parties by way of common Directors

The following purchases were made on an arm's length basis from related parties during the year

| Group | 2007 £'000 | 2006 £ 000 |
|---|---|---|
| Hilton Meats (International) Limited | **70,097** | 72,048 |
| Romford Wholesale Meats Limited | **42,311** | 43,383 |
| RWM Dorset Limited | **16,678** | 11,295 |
| Foyle Food Group Limited | **35,384** | 32,205 |

Amounts owing to related parties at the year end were as follows

| Group | 2007 £ 000 | 2006 £'000 |
|---|---|---|
| Hilton Meats (International) Limited | **3,908** | 4,636 |
| Romford Wholesale Meats Limited | **2,458** | 2,509 |
| RWM Dorset Limited | **1,412** | 787 |
| Foyle Food Group Limited | **3,301** | 3,313 |
| | **11,079** | 11,245 |

The ultimate shareholders of all of the above companies have an interest in the share capital of the Company

The Company's related party transactions during the year were as follows

| Company | 2007 £'000 | 2006 £ 000 |
|---|---|---|
| Hilton Foods Limited – dividend received | **2,500** | – |
| Hilton Foods Limited – interest expense | **1,348** | – |

In addition to the above the Company borrowed £25m from Hilton Foods Limited to fund the Reverse Acquisition of the Group (see note 5) At the year-end £25,380,000 was owed to Hilton Foods Limited

# Registered office and advisors

**Registered office**

2-8 The Interchange
Latham Road
Huntingdon
Cambridgeshire
PE29 6YE

**Advisors**

Corporate broker

Panmure Gordon
155 Moorgate
London
EC2M 6XB

Legal adviser

Taylor Wessing
Carmelite
50 Victoria Embankment
Blackfriars
London
EC4Y 0DX

Registered auditors

PricewaterhouseCoopers LLP
Waterfront Plaza
8 Laganbank Road
Belfast
BT1 3LR

Registrar

Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA

Financial Public Relation

Citigate Dewe Rogerson
3 London Wall Buildings
London
EC2M 5SY

Bankers

Ulster Bank Limited
Donegall Square East
Belfast
BT1 5HD

Svenska Handelsbanken AB
721 03 Vasteras
Sweden